

Australia	100.00	100.00	100.00	100.00	100.00
Belgium	100.00	100.00	100.00	100.00	100.00
Canada	100.00	100.00	100.00	100.00	100.00
France	100.00	100.00	100.00	100.00	100.00
Germany	100.00	100.00	100.00	100.00	100.00
Italy	100.00	100.00	100.00	100.00	100.00
Japan	100.00	100.00	100.00	100.00	100.00
Netherlands	100.00	100.00	100.00	100.00	100.00
Portugal	100.00	100.00	100.00	100.00	100.00
Spain	100.00	100.00	100.00	100.00	100.00
Sweden	100.00	100.00	100.00	100.00	100.00
Switzerland	100.00	100.00	100.00	100.00	100.00
UK	100.00	100.00	100.00	100.00	100.00
USA	100.00	100.00	100.00	100.00	100.00

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

Monday April 23 1990

MONGOLIA

Barter trade buys  
stereos for nomads

Page 24

D 8523A

FT No. 31,130

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## World News

### Lithuanians say freedom depends on West's help

Lithuanian ministers, confronted with a collapse of production because of the Soviet energy blockade, predict that their bid for independence will end if the West does not provide immediate help with supplies.

Deputy Economics Minister Antanas Merkys said: "If we don't get such alternative supplies, then our struggle is over." Page 24

### Concorde rocket halts

Argentina has suspended work on its programme to build the controversial medium-range Concorde II rocket, Defence Minister Humberto Romero said. The project, which had been developed jointly with Egypt and Iraq, had been postponed "because we do not have the funds nor the budget to finance an initiative of this nature."

### China crushes revolt

China said 22 people were killed and at least 13 injured in an armed counter-revolutionary rebellion in its far western region of Xinjiang this month. A television report said a revolt by a "small number of ruffians" was put down in the town of Baren.

### Israel admits role

The Israeli government admitted that it provided financial backing for the controversial takeover by Jewish settlers of a large building in the Christian Quarter of Jerusalem's Old City. Page 2

### Mandela's appeal

Nelson Mandela, deputy leader of the ANC, said he would appeal to British Prime Minister Margaret Thatcher for tougher sanctions against apartheid when he meets her in London, probably in July.

### Towns cut off

Many people have been reported missing as Australia's worst floods in a century cut off outback towns and forced hundreds to take refuge on the roofs of submerged homes. In Brazil, 11 died in flooding in Rio de Janeiro state.

### Driver accused

Paul Ashwell, 36, a British truck driver, was remanded in custody in Athens, Greece, pending trial for transporting 29.5 tons of Iraqi-bounding tubing which authorities said was designed to form part of the barrel of a massive gun.

### Croatians vote

Croatia, the second biggest republic in Yugoslavia and one of the most economically advanced, voted in its first free elections since before the Second World War. Page 4

### Boost for Wales

The Solidarity trade union furthered Lech Walesa's campaign to become Poland's president by overwhelmingly re-electing him as its leader. Page 4

### Moscow free market

Gavril Popov, Moscow's new mayor, was quoted as saying the city should open soup kitchens for the poor to smooth the way for introducing free market elements into the capital's economy. Price rises put off. Page 4

### Mitterrand slips

President Francois Mitterrand's popularity has dropped to its lowest point in France for four years. Page 4

### Links restored

Egypt's first ambassador to Syria in more than a decade presented his credentials to President Hafez al-Assad in Damascus.

### End of a dictator

Romanian dictator Nicolae Ceausescu went to his death in tears with his hands bound behind his back and his wife Elena screaming in panic at his side, a video broadcast on French television showed.

### Currency havoc

A new law forcing East Europeans to change the equivalent of at least \$20 into Yugoslav dinars when they enter Yugoslavia caused havoc at border points.

### Pope for Cuba

Pope John Paul II will visit Cuba in December, a Vatican spokesman said during the papal tour of Czechoslovakia.

### Hard act to follow

The La Scala opera house in Milan finally broke away from a legacy of fear left by the late Maria Callas when it staged its first production in 26 years of La Traviata. Callas's performance had overshadowed all her successors.

## Business Summary

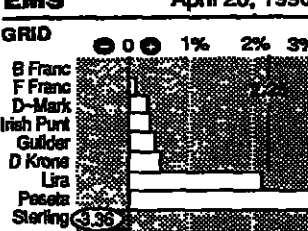
### Glaxo and Astra clash over ulcer drug safety

Glaxo, Britain's largest pharmaceuticals company, has been plunged into a battle of unprecedented ferocity over the safety of Zantac, the world's leading ulcer drug. Glaxo also came under attack for its research into Losac, a competing drug made by Astra, the Swedish medicines group. Page 24

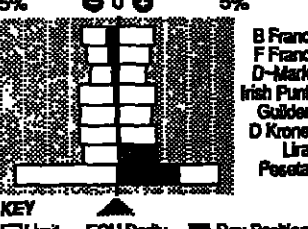
### EUROPEAN Monetary System

The Bank of Spain intervened to stem the peseta's rise at the top of the EMS. The central bank sold pesetas against the French franc, but the Spanish currency remained well within its agreed 6 per cent divergence limit. The D-Mark has moved towards the bottom of the system, depressed by uncertainty about the implications of possible German monetary union. This helped keep pressure off the EMS last week. Currencies. Page 37

### EMS April 20, 1990



### ECU DIVERGENCE



### The chart shows the constraints on EMS exchange rates.

The upper grid, based on the system's widest currency, defines the cross-rates from which only the peseta may move by more than 2 1/2 per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (ECU).

### CANADIAN interest rates

have fallen to their highest level in almost eight years. Banks lifted their prime lending rate by half a point to 14.75 per cent. The bank rate now stands at 13.75 per cent, compared with just above 12 per cent earlier this year. Page 2

### NOBEL INDUSTRIES, Swedish

armaments and chemicals group, plans a radical reorganisation of its Nobel Plast division which last year accounted for almost 5 per cent of group turnover. Page 27

### SOVIET UNION is to spend

\$160bn at the official Rouble (RUB) at the official rate of 16 RUB to the dollar over the next two-and-a-half years on the after-effects of the Chernobyl nuclear disaster. Page 4

### FILS INDUSTRIES, Danish

cement plant manufacturer, engineering and building materials group, plans an increase in dividend from 10 per cent to 12 per cent after increasing pretax profits. Page 27

### NORANDA FOREST, Canada's

largest pulp and paper group, reports a dramatic decline in first quarter earnings. Net profit tumbled by 90 per cent. Page 27

### AVON PRODUCTS, the world's

largest maker of cosmetics and toiletries, suffered a setback in its plans to sell its stake in Avon-Japan for \$450m when potential buyers said they did not intend to close the sale by April 27. Page 27

### ESAB, the world's leading

welding equipment manufacturer, recorded a 23 per cent increase in profits for the first three months of the year. Page 27

### TRADE MINISTERS from 30

leading nations meeting in Mexico have set a deadline of July for an outline package of agreements to complete the Uruguay Round of multilateral trade negotiations. Page 2

### TELEFONICA, Spanish tele-

communications group has been ordered by the Chilean Monopolies Commission to sell its 20 per cent share in Entel, Chile's main international telephone company. Page 27

### BANGLADESH is pledged

\$1.8bn of soft loans and grants by Western aid donors, far less than the \$2.5bn it had been seeking. Page 4

### IMPERIAL OIL, which is 70

per cent owned by Exxon, is selling its 22.5 per cent interest in International Energy for \$349m to Gulf Canada Resources. Page 27

## Nigerian military government survives coup attempt

NIGERIA'S military government appeared in control last night following an attempted coup by middle-ranking officers, write William Keeling in Lagos and Michael Holman in London.

President Ibrahim Babangida, speaking on national television, said that rebel leaders had been arrested. Unrest had been confined to Lagos, he added.

Little is known about the plotters, but a rebel radio broadcast early Sunday morning reflected tensions between the country's Muslim-dominated north and the mainly-Christian south.

A further factor is likely to have been the economic hardship experienced by most of the 110m population under the country's economic reform programme, Nigerian officials, currently engaged in negotiations to reschedule their country's \$32bn external debt, may well use the coup attempt to underline their case for sympathetic treatment by creditors.

Shooting broke out in the early hours of Sunday morning around Dodan Barracks, the government's administrative centre in Lagos where President Babangida has his office.

In a broadcast on Lagos state radio, a man identifying himself as Major Gideon Newozor Oka and speaking "on behalf of the patriotic and well-meaning peoples of the Middle Belt and southern parts of this country," said:

"...wish to happily inform you of the successful ousting of the dictatorial, corrupt, drug-baronish, inhumane, sadistic, deceitful, homosexually-centred and unpatriotic administration of General Ibrahim Babangida."

General Babangida took office in August 1985 in a bloodless coup. Since 1986, his government has been implementing an economic reform programme, endorsed by the

International Monetary Fund (IMF) and backed by the World Bank. President Babangida has promised a phased return to civilian rule under a two-party system, culminating in presidential elections in 1992.

The impact of austerity measures, exacerbated by falling earnings from oil - the main export - combined with corruption within senior government, has sharply eroded the administration's popularity.

Rivalry between the north and south has grown, and a cabinet reshuffle last January was seen by some Christians as favouring the Muslim north.

In the radio announcement, the northern states of Borno, Bauchi, Kano, Katsina and Sokoto were accused of "messing up" the rest of the country through what was termed their domination of the Babangida Government. The rebels' spokesman raised the spectre of the break-up of the Nigerian federation, saying the five states would not be allowed to be part of the country until they had proved their loyalty to the new Government.

Had the coup proved successful, it would have been the seventh since Nigeria won independence from Britain in 1960. Nigeria, Page 8



## Pro-Iranian group releases American hostage in Beirut

By Tony Walker in Damascus and Lara Marlowe in Beirut

PRO-IRANIAN extremists released an American hostage in Beirut yesterday following a weekend of intense diplomatic activity centred around Damascus.

The Islamic Jihad for the Liberation of Palestine (IJLP) freed Mr Robert Polhill outside the Summerland Hotel on the Beirut waterfront just after 5pm in a gesture that appeared designed to help facilitate a thaw in US-Iran relations.

Mr Polhill is the first American hostage to be freed in Lebanon since Mr David Jacobson was released nearly three and half years ago, in November, 1986.

Mr Polhill had been in captivity for 1,183 days. The accountant professor from New York, NY was immediately whisked away by Syrian security in a convoy of vehicles across the mountainous route to Damascus.

US officials in the Syrian capital said Mr Polhill was resting at a government house before being handed over by Mr Farouq al-Shara Syrian Foreign Minister to US Ambassador Edward Djerejian at the Foreign Ministry. Mr Polhill's wife Feryal is in Damascus.

Libyan leader Muammar Gaddafi yesterday appealed for



Polhill: held for 1,183 days

the release of all hostages held by Muslims, Palestinians detained by Israel and Middle Easterners in a holding camp in the West. He singled out for a special appeal hostages "carrying out humanitarian services like members of the Red Cross."

There are strong hopes that Mr Polhill's release would lead to the freeing of the remaining 17 Westerners missing and believed held by Muslim militants in Lebanon. These include seven Americans, four

Britons, two West Germans, two Swiss, an Italian and an Irishman.

The Britons include journalist Mr John McCarthy, Mr Terry Waite, the Archbishop of Canterbury's special envoy and retired airline pilot Mr Jack Mann.

The longest-held captive is journalist Mr Terry Anderson, 42, of the Associated Press, who was kidnapped on March 16, 1985, by a group that identified itself as the Islamic Jihad, or Islamic Holy War. Mr Polhill, 55, was kidnapped with fellow professors Mr Alann Stoen, 51, and Mr Jesse Turner, 42, from the campus of Beirut University College (BUC) by the IJLP on January 24, 1987.

Eye-witnesses to yesterday's release reported that a car screeched to a halt outside the Summerland and a hostage climbed out. "The rear door of a waiting car on the other side of the street was then opened and the hostage walked straight in," the witness said.

Brig-Gen Ghazi Kenaan, head of Syrian Military Intelligence in Lebanon, arrived moments later in a bullet-proof Mercedes-Benz and took charge of the freed American hostage.

The release of the American Continued on Page 24

## Daimler-Benz seeks guarantee on jobs if Bonn abandons EFA

By David Marsh in Bonn

DAIMLER-BENZ, West Germany's vehicle and aerospace conglomerate, has called on the Bonn Government to be ready to arrange alternative employment in civilian activities if Germany withdraws from the European Fighter Aircraft project.

In an interview with the Financial Times, Mr Edzard Reuter, the Daimler chairman, said the question of Germany's future participation in producing the EFA was still "fully open."

The aircraft is a joint venture between Germany, Britain, Italy and Spain, indicating how seriously Germany's largest company is taking growing opposition to the project in Bonn. Mr Reuter said: "If the German Government and the other participants have decided not to go ahead, then they will have the responsibility, for a transition phase, to secure employment of another kind."

"Capacities have been built up, development and production facilities for military aircraft, as the result of a political decision. This meant that the state would have to help shoulder the consequences 'if the political decision is now made that these capacities are no longer required.'"

Mr Reuter said: "It seems at

present sure that we will complete the EFA development phase (running to about 1994). But a German withdrawal from the production phase was a possibility."

"What happens then will depend on future decisions. One possibility was that the West Germans would pull out, but the aircraft would still be built."

It was also possible that the Bundeswehr, the German army, would decide on another aircraft, such as a modernised Tornado, he said.

Mr Reuter gave the first comprehensive list of joint projects being studied between Daimler and Japan's Mitsubishi group, under a co-operation accord announced last month. These included joint production of a future cross-country car, as well as collaboration in commercial vehicles, transport systems, household appliances, space rockets and satellites, regional aircraft and aero-engines.

Commenting on the lawsuit lodged on April 2 by General Electric of the US against Daimler's proposed aero-engine link with United Technologies, Mr Reuter said it appeared to reflect "misinformation by GE. 'I am convinced that the lawsuit is without foundation.'"

Mr Reuter, who had private talks last month with President Francois Mitterrand of France, gave a fresh insight into the past few months of strains between Paris and Bonn over German unification, although he said this phase was now over.

"I think it may be possible that the co-operation between Volvo and Renault (announced at the end of February) was not decided without French political influence, probably from the French President, against the background of this irritation between France and Germany," he said.

Daimler-Benz took over Germany's prime defence and aerospace contractor Messerschmitt-Bölkow-Blohm in a deal finally agreed last autumn. Mr Reuter confirmed that MBB's subsidiary, Deutsche Airbus, the German partner in the European Airbus programme, suffered large losses last year as it made provision for risks previously borne by the government.

Although he could not confirm a reported figure of DM1bn (\$1.67bn) losses, he said, "such an order of magnitude would not be especially surprising."

Monday Interview: Edzard Reuter, Back page, Section 11

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### THE MONDAY INTERVIEW

Edzard Reuter, chairman of Daimler-Benz, is hurrying along on a global corporate adventure. Yet he manages to look like a man with time on his hands as Daimler spreads its wings. Page 42

### Nigeria: Politicians and creditors in a spin as economy struggles to revive

EC company tax ironing out the wrinkles between 12 different systems

Managements: British companies turning to collaboration for new technology

Editorial comment: Why Gatt still matters: The rewards of ownership

The two Germanies: Creeping disillusionment over joint business ventures

US economy: Recession still looms

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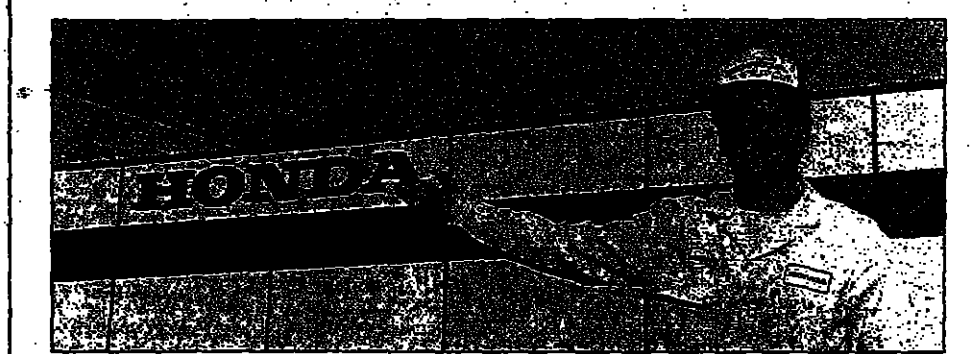
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Money Markets

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## OVERSEAS NEWS

## Brady bid to extend SEC powers to Chicago

By Lionel Barber in Washington

MR NICHOLAS Brady, US Treasury Secretary, is preparing to launch a personal campaign to persuade Congress to transfer to the Securities and Exchange Commission (SEC) regulatory powers over stock index futures trading in Chicago.

Mr Brady's proposals are certain to arouse opposition from the Commodity Futures Trading Commission (CFTC), which jealously guards its authority over the Chicago futures markets and enjoys support among the powerful agriculture lobby in Washington.

However, Mr Brady, a former top Wall Street executive who chaired a presidential inquiry

into the 1987 stock market crash, has long argued that stock index futures trading can contribute to excess market volatility, and that it should be subject to a single regulator.

Mr Brady has told his Treasury staff that the transfer of powers from the CFTC to the SEC should be a "top priority" in the coming legislative session. He is due to unveil the Administration's proposals in testimony to the Senate Agriculture committee on May 8.

A man who shuns the role of globe-trotting financial statesman cultivated by his predecessor Mr James Baker, Mr Brady has turned his desire to streamline the regulation of

the financial markets into a personal political mission.

He feels that excessive market volatility, especially after the 1987 crash, has undermined individual investors' confidence, and argues a single regulator for stocks and futures products would allow better control of the margins, or deposits, put by investors in the futures markets.

The Treasury does not believe Chicago futures margins should necessarily be raised to the level of the New York equity markets, "but we think they should be harmonised", said one official. Mr Richard Breeden, SEC chairman, broadly shares this view.

Reforming margins or shifting changing regulatory responsibilities has in the past met with strong opposition from the CFTC and the Chicago financial and political establishment. Mrs Wendy Gramm, CFTC chairman, has fended off several challenges in recent years.

This time, Mr Brady has stopped short of calling for a merger between the SEC and CFTC, and hopes to have a better chance of selling his case on Capitol Hill. Deftly, the Treasury has told Congress it supports Mrs Gramm's bid for renomination, due this year.

As usual in Washington, jurisdictional squabbles will

figure prominently, and the Treasury knows it must ally itself with a weakened CFTC will lead to a loss of power by the agricultural committee. It is therefore looking at ways to amend existing legislation - the Commodity Exchange Act - rather than coming up with a new raft of legislation.

Mr Brady's enthusiasm for regulatory reform is tempered by the knowledge that time is not on his side. Congress will most likely have to consider and approve changes in the law before July, when most law-makers will leave Washington to campaign in the run-up to the November mid-term elections.

## Milken 'junk bond' case on the verge of settlement

By Martin Dickson in New York

THE biggest criminal case in Wall Street history is on the point of settlement this week, following a tentative agreement by Mr Michael Milken, the man who single-handedly created the "junk bond" market, to plead guilty to six charges involving securities transactions, and pay \$600m (\$360m) in fines.

This would be the largest fine ever imposed in the US on an individual, and Mr Milken, former head of the "junk bond" department at the now-defunct securities house Drexel Burnham Lambert, would also face a prison term, possibly of up to five years.

But there were reports yesterday that the settlement would not require Mr Milken to provide evidence he might have of any wrongdoing by other financiers involved in the 1980s takeover boom, which Drexel's "junk bonds" played a large role in financing.

Wall Street had been expecting government officials to seek such information from Mr Milken, which might widen still further the net that first opened in 1986. That was when Mr Ivan Boesky, the share speculator, agreed to pay \$100m to settle insider-trading charges and co-operate with a much wider investigation into



Michael Milken: fallen junk bond king

criminal activities on Wall Street. The Milken settlement might therefore mark the high point of the Government's inquiry, leaving many questions unanswered.

Mr Boesky, who emerged this month after two years of a three-year jail term, provided evidence against both Mr Milken and Drexel, which subsequently agreed to plead guilty to six felonies and pay \$30m in fines. The bank factor, with mounting liquidity problems, collapsed two months ago.

Mr Milken was indicted in March last year on 98 counts alleging racketeering and fraud. His lawyers and senior officials from the US Attorney's office had spent months in talks for a possible plea-bargain to settle the case, and prosecutors had threatened to file additional charges against the financier unless agreement was reached by last Friday.

Late on Friday, Mr Milken was reported to have tentatively agreed to plead guilty to six of the lesser charges against him, apparently centring on alleged fraudulent

activities involving securities trading. But he will not plead guilty to any of the more serious charges of racketeering or insider trading, which might carry much longer prison sentences.

The settlement, which also appears to drop charges against Mr Milken's brother, Lowell, is not entirely fixed. Mr Milken's agreement still appears tentative, while any deal is subject to approval of the courts. Federal District Judge Kimba Wood, who is hearing the case, is expected to hold a meeting of the various parties tomorrow.

The proposed deal will still leave Mr Milken a rich man. As the highest-paid executive in the US securities industry in the 1980s, he received more than \$1bn from Drexel between 1983 and 1987 and is believed to have made huge sums from investments on his own account. But the plea-bargain is now likely to unleash 73 civil suits from investors alleging he defrauded them.

The rise and fall of Mr Milken and Drexel was the most remarkable Wall Street phenomenon of the 1980s. Working from an office in Beverly Hills, California, Mr Milken created a huge market for "junk bonds" - high-yield securities from second-rate companies traditionally spurned by top Wall Street houses. He claimed the higher returns more than offset the risk of default.

His clients, many of them fringe financiers at the start of the decade, used this paper to launch highly-leveraged takeovers. Some of the biggest investors were savings and loans institutions. That industry is now the subject of a government bail-out, amid allegations of fraud.

## Ministers set July deadline for trade talks breakthrough

By Peter Montagnon in Puerto Vallarta, Mexico

TRADE ministers from 30 leading nations have set a deadline of July for establishing an outline package of agreements to help complete the Uruguay Round of multilateral trade negotiations.

The package will cover all 15 items on the Uruguay Round agenda and the July deadline is intended to help produce political concessions needed before detailed work on a final agreement can begin.

Unless decisions - for example, on reform of farm and textile trade - are taken by July, many trade officials fear it will be impossible to complete the Round on schedule in December. This would pose problems for the Bush Administration, whose negotiating authority from Congress runs out shortly afterwards.

At the suggestion of Mr Frans Andriessen, European Community Trade Commissioner, the July meeting of Uruguay Round negotiators will be attended by "sub-cabinet" level officials high enough to inject some political content.

Though the talks failed to produce a breakthrough on any key issue, the ministers left at the weekend convinced they had summoned the political will to tackle the Round's most difficult final stage.

The ministers said their three days of talks had helped clarify positions. This process would continue between now and July, paving the way for the re-assessment of national positions and the political decisions needed to complete the

negotiations. However, Mr Neal Blewett, Australia's new Trade Negotiations Minister, warned that wide disagreements remained over world farm reform where neither the objectives nor the procedures had been firmly agreed.

"It is going to be tough and difficult to get the parameters in place in July," he said.

US officials were encouraged by the agreement to examine reduction of farm support in each of the main areas concerned - export subsidies, import barriers, and domestic aid.

They hoped this would prompt the EC to begin considering specific measures for reform and to back away from its controversial insistence on being able to "re-balance" cuts in one form of subsidies with increases in another.

However, Mr Andriessen said the EC was prepared to contribute to the negotiations but not on the basis of the elimination of trade-distorting subsidies demanded by the US. Delegates said the North-South confrontation, which many had feared, had failed to materialise as developing countries began to develop different positions.

Mr Arun Nehru, India's Trade Minister, met little support for a headline speech on foreign investment rules, and Brazil, which had previously been a staunch ally of India, appeared to be moving towards a more conciliatory position. Editorial comment, Page 22

## WORLD ECONOMIC INDICATORS

## FOREIGN EXCHANGE RESERVES (US\$m)

	Feb. '90	Jan. '90	Dec. '89	Feb. '89
US	43,913	45,233	55,862	19,306
UK	31,839	31,765	31,987	40,742
W. Germany	57,145	58,001	55,882	50,660
Japan	73,483	75,738	77,992	71,981
Belgium	9,920	9,941	9,760	7,952
Italy	45,755	46,001	44,278	34,219
Netherlands	15,530	15,148	15,027	14,366
France	21,646	21,868	21,574	22,117

Source: IMF

## Canadian rates hit eight-year high

A jump in Canadian interest rates to their highest level in almost eight years has heightened fears of recession and highlighted international worries over Canada's economic and political prospects, writes Bernard Simon in Toronto.

Banks lifted their prime lending rate last Friday by half a point to 14.75 per cent, following another steep rise in the Bank of Canada's trend-setting weekly bank rate. The bank rate now stands at 13.77 per cent, compared with just above 12 per cent earlier this year.

## THE FINANCIAL TIMES

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## COUP ATTEMPT IN NIGERIA

## Religious tension behind challenge to Babangida

FEW AFRICAN leaders are as well equipped to foil a coup as Nigeria's President Ibrahim Babangida.

His considerable experience in usurping power goes back to 1976 when he helped put down a plot against the military government of the day. He later played a key role in the 1983 overthrow of President Shehu Shagari, the country's last civilian leader, and in August 1985 took over the top job himself when he skilfully ousted General Muhammadu Buhari in a bloodless coup.

The poacher turned gamekeeper may well have drawn on past lessons in his apparently successful handling of yesterday's attempted putsch by junior officers. But given the host of problems that surround him, he could have further occasion to draw on his expertise.

President Babangida's greatest achievement has been on the economic front. With the endorsement of the International Monetary Fund (IMF), and largely funded by the World Bank, he has introduced a far-reaching structural adjustment programme.

## Sad history of coups since independence

1960 - Independence from Britain

1966, January - Prime Minister Sir Abubakar Tafawa Balewa assassinated, Maj-Gen Johnson Ironsi takes control.

1966, July - coup, Ironsi killed, General Yakubu Gowon appointed head of state.

1967-1970 - Biafra civil war

1975 - Coup: General Murtala Muhammed takes over

1976 - Muhammed assassinated; succeeded by General Olusegun Obasanjo

1979 - Return to civilian rule under President Shehu Shagari

1983 - Coup: General Muhammadu Buhari

1985 - Coup: General Ibrahim Babangida

Despite quashing yesterday's coup, Nigeria's president faces formidable problems, write William Keeling in Lagos and Michael Holman in London

Key measures include trade liberalisation, a substantial devaluation of the Naira from 180 US cents to around 12.5 cents, and a privatisation plan involving nearly 100 companies.

IMF support paved the way to a series of external debt reschedulings - although Nigerian officials maintain that more help is needed if the country is to maintain debt servicing while at the same time trying to fund the recovery programme.

But nearly four years of austerity measures and a slump in oil earnings has severely eroded the government's popularity.

At the same time, President Babangida's image has been tarnished. Implementation of economic policies has sometimes been weak, with the result that some of the benefits have been delayed. Promises to end corruption have not been fulfilled, and senior army officers are among the worst

offenders.

The honeymoon with the press and human rights campaigners which marked the first year or two of the Babangida government has ended; unrest has been simmering at many of the country's universities, fuelled by high levels of graduate unemployment; and the commitment to a phased handover to civilian rule by 1992 has been greeted by apathy and cynicism, the result in part of the government's imposition on the electorate of two newly created parties which exist in name only, accompanied by manifestoes which have no credibility.

Perhaps the most sensitive issue, however, reflected in the radio broadcast that signalled the coup attempt, is the growing tension between the Moslem-dominated north, home of the Hausa-Fulani peoples, and the largely Christian south, stronghold of the Yoruba and Ibo.

Although reference to a

north-south division may oversimplify a complex issue, it is none the less a critical factor in Nigerian politics.

The rivalry has never been far below the surface, but it was exacerbated in 1986, when the government decided to become a full member of the Organisation of Islamic Conference. The decision, taken secretly and implemented without warning, antagonised many Christians, who feared it would jeopardise Nigeria's status as a secular state.

Over the past 18 months the rivalry has taken on a new dimension, prompted by developments in the northern state of Sokoto, which as well as alarming the south also adversely affect the President's standing in the north.

Among the most serious accusations levelled against President Babangida is that he has undermined the Sokoto-Caliphate, the Moslem heartland of Nigeria "by installing an unwanted sultan."

The sultan is the leader of Nigeria's Moslems, who make up about 50 per cent of the country's 120m people.

When the then incumbent Sultan Abubakar III died in 1988, there were at least four potential successors. The leading candidate appeared to be the Sultan's eldest son. However it is widely believed the government interfered with the succession contest, and aided the candidature of Ibrahim Dasuki, considered a close confidante of the president.

Disagreement over the sultan's succession, resolved in November, 1988, appears to be central to decision of what the coup plotters called the National Relief Council, which would have been the executive arm of government had the coup succeeded.

The Council said the new regime would exclude the northern states of Sokoto, Borno, Katsina, Kano and Bauchi states from Nigeria. The states would be readmitted once the "rightful heir to the Sultanate, Alhaji Maccido" (the son of the late Sultan) was installed and a delegation led by Maccido sent to the federal

government to vouch that the "aristocratic quest for domination and oppression will be a thing of the past."

All citizens of the five northern states were to have been "temporarily suspended from all public and private offices" in Middle Belt (states straddling the middle of Nigeria) and southern areas.

Reports of reaction from around the country were sparse last night. But in Kaduna diplomats reported Christians celebrating in the streets.

The city rests on what many see as a dividing line between the Moslem north and Christian south. In 1987, it suffered large-scale riots during which many churches were destroyed by Muslim crowds. And after a cabinet reshuffle in January this year, Christians demonstrated against what they saw as a religious bias towards Islam in the new cabinet.

Yesterday's news from Kaduna was a disquieting sign that in some parts of the country at least, the plotters' rhetoric had hit a responsive chord.



President Babangida meeting the Queen last year

## Politicians and creditors in a spin as economy struggles to revive

Just as one agreement is reached, another round of bargaining seems set to begin, William Keeling reports from Lagos

YESTERDAY'S coup attempt challenge to the Government of President Ibrahim Babangida will help focus attention on one of the key issues critical to Nigeria's future: the burden of the country's external debt and the heavy cost of servicing it.

Some \$32bn (\$18.8bn) is owed to external creditors, and since the early 1980s the debt has been subject to a seemingly endless round of rescheduling negotiations.

Just as one agreement is reached, another round of cross-table bargaining seems set to begin. Like dogs chasing their own tails, Nigerian politicians and foreign creditors alike expend much of their energy spinning in furious circles, while the surrounding economy struggles to revive.

At the centre of the negotiations lies oil. It accounts for 90 per cent of foreign exchange receipts, but revenue has slumped from \$26bn in 1980 to less than \$9bn last year. The Central Bank of Nigeria predicts a fall in foreign exchange earnings in 1990 to just \$7.5bn. Gross national product per head has collapsed, from a high of \$1,090 in 1981 to

around \$250 last year.

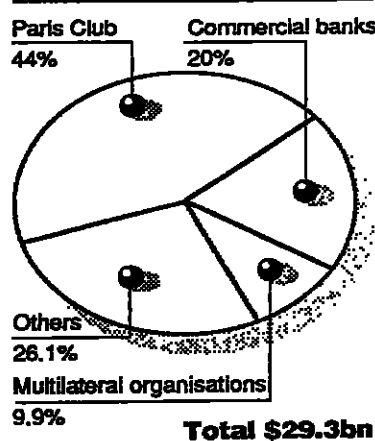
Despite these figures, the creditors argue that Nigeria can still pay its way if modest rescheduling of the debt is agreed. The government, which since 1986 has undertaken an IMF-approved (but not funded) structural adjustment programme, appears to be digging in its heels. It is arguing not only for the further rescheduling of debt but for substantial debt relief.

The finance minister, Chief Olu Falae, made clear the new stance in a meeting with the London Club creditors at the end of March.

He told the commercial banks - owed \$5.5bn - that service payments were "too high and unsustainable". He said Nigeria would not be in a position to maintain payments at contractual levels beyond the first quarter of this year. Instead, he proposed issuing a new 30-year bond to cover the debt with a 10-year grace period and 3 per cent interest.

The creditors have asked the Nigerian delegation to furnish them with further details of expected foreign exchange earnings and a second meeting has been agreed.

## Nigeria's debt 1988



Sources: Nigerian authorities; World Bank; Fund staff

But as one Lagos banker put it: "The commercial banks have their backs against the wall. Having made provision for bad debt, they have little choice but to accept relief as its consequence".

How far down the road of debt

relief Nigeria will succeed in travelling is as yet uncertain. Central Bank officials say that Nigeria is due to pay \$4.5bn in debt-servicing in 1990 - equivalent to 60 per cent of projected foreign exchange earnings.

Faced with such a bill, the Government has announced that it will impose a ceiling for debt-servicing of 30 per cent of foreign exchange earnings. Even if they do win easier terms from the London Club, therefore, the Nigerian authorities will still owe far more than they say they are willing to pay.

To reduce the burden, a diplomatic offensive has been undertaken to persuade Paris Club members (primarily the Western export credit agencies) to embrace debt relief.

At the beginning of March, President Babangida made a state visit to France. Chief Falae has been in Europe, and is scheduled to fly on to Japan.

Nigeria's case has been strengthened by the recent fall in the price of oil. The 1990 budget was based on a forecast of a \$16 per barrel year-end average. Earlier this year, that

seemed over-cautions, but developments in the world market this month suggest the caution may be justified.

Western diplomats and bankers have nevertheless adopted a tough stance, apparently reluctant to take the step from rescheduling to relief. A senior diplomat explained the reasons: "Nigeria needs a change of mentality towards investment; the climate is still unattractive. Secondly, we believe they have sufficient income to meet their obligations."

Both the London and Paris Clubs are sceptical of Nigerian figures for how much the nation earns. Last year, the country not only met its debt obligations but managed to boost its external reserves from \$611m to \$1.79bn, or four months' import cover. Many analysts have argued that with external reserves now at an acceptable level, the Government will have at least an extra \$1bn to play with in the next financial year - but this calculation would have to be revised if the oil slump continues.

Other economic indicators show signs of improvement. While the

inflation rate a year ago stood at over 50 per cent, bankers believe it is now under 10 per cent. This may be set to change following a recent increase in the money supply and with interbank interest rates falling from 35 per cent six weeks ago to under 25 per cent now.

But many bankers consider the Government's overall economic performance has been good and believe it will receive the further backing of the International Monetary Fund after their present agreement expires at the end of this month.

This would leave Nigeria in the odd position of being at loggerheads with the Paris Club, despite its economic performance having the IMF's stamp of approval.

Negotiations with the Paris Club, scheduled for June, may well be a tense affair.

The Nigerian Government is set to argue that, having reduced inflation and raised foreign reserves, simply to reschedule would be to penalise it for improved economic performance. Moreover, to be made to suffer at a time of falling oil prices would sabotage the gains so far made.

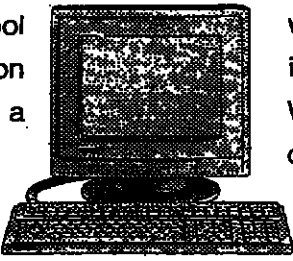
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## OVERSEAS NEWS

## EC leaves sanctions issue open

By Kieran Cooke and Tim Dickson in Dublin

THE European Community has left open the option of applying economic sanctions against the Soviet Union after a special weekend meeting of EC foreign ministers in Dublin gave strong backing to Lithuania.

A 12-member declaration expressed "serious concern" at the steps recently introduced by Moscow in relation to the Baltic republics, and pledged to "keep the situation and its policy implications under continuous review".

Diplomats said this was a reference to the trade and co-operation agreement negotiated with the Soviet Union last December. If events turned out for the worse, suspending parts of that accord might be considered.

It was stressed that while member states sympathised with the Lithuanians' plight, the EC felt the best solution lay in negotiation. Mr Douglas Hurd, UK Foreign Secretary, said the EC was seeking restraint on all sides. "Too much has been achieved in the Soviet Union to have it all thrown away. It is important to keep perestroika going."

The joint statement attacked any actions of a "coercive nature". The Twelve said "an outcome acceptable to all must be sought and this is possible only by means of discussion".

## Aid approved for Chernobyl after-effects

By John Lloyd

THE Presidium of the Soviet Council of Ministers, or cabinet, has approved the spending of Rbl5bn (£16bn at the official rate) over the next two-and-a-half years on the after-effects of the Chernobyl disaster.

The sum indicates how deep the crisis caused by the explosion in April 1986 has

turned out to be. The cabinet has also adopted a resolution to undertake long-term measures, which include hiring foreign experts to assist Soviet scientists in coping with the medical and environmental after-effects.

The fourth anniversary of Chernobyl, which falls on Thursday, is being given huge

publicity - in contrast with the virtual blackout imposed at the time, when the authorities' slow response almost certainly meant an unnecessary further loss of life.

The main targets of the programme will be to improve medical aid, provide uncontaminated food to the affected regions around Chernobyl and

raise social security payments to the most directly affected, especially children and the elderly.

The fallout from the explosion covers a vast area in the Ukraine - where the station sited some 120 miles from the republic's capital, Kiev - and in neighbouring Belarus and Russia.

## Soviet price rises put back for year

By John Lloyd in Moscow

A SENIOR economic adviser to Mr Mikhail Gorbachev, the Soviet President, has said that retail price increases, confidently forecast for this year as a key part of economic reforms, will not be brought in until at least next year.

Mr Vladislav Shatalin, a leading academician and economist, and a member of the Presidential Council, in a grim forecast for Soviet consumers, said that even if the measures went into effect next year, they would not cause an improvement in the supply of goods to the consumer market for "two to three years".

In a further confirmation of delay now besetting the reform programme, Mr Ivan Laptev, the new chairman of the Supreme Council of the Union (one of the two chambers of the Supreme Soviet), said that the 15 or 16 bills being drafted to implement the pro-market reforms may not be put before the Soviet until its autumn session.

No date has yet been set for the start of this session.

Meetings of the Presidential Council last weekend and mid-week, which had been supposed to finalise the package of laws, ended with a statement by Mr Gorbachev on how much more work needed to be done, particularly in seeking a social consensus on what are widely

feared reforms.

Mr Shatalin said that the reforms should:

- Abolish "as soon as possible" the industrial ministries, which are one of the main factors of our monopolistic and ineffectual development;
- Allow land to be sold in cities as well as in the countryside, "not fearing that land will be bought by the agents of the shadow economy. Those who fear wolves should not go into the forest."

- Open up areas of the Soviet economy for direct foreign investment, as well as allowing and encouraging joint ventures.

- Cut capital spending for industrial construction, in favour of reconstruction of existing plants - which would have the twin virtue of being cheaper, and of more rapidly increasing supplies of consumer goods.

- Cut heavily arms expenditure, because "maintaining the largest army in the world and maintaining living standards is pure economic adventurism".

- Institute a system of payment of wages by results.
- Ensure the equality of all enterprises, whether state, co-operative or private, and encourage the further development of co-operatives by ensuring them privileged access to supplies, and lower tax rates.

## New York cleans up on Earth Day

AMID the skyscrapers and litter-strewn streets of Manhattan, in one of the most unnatural habitats known to man, the 20th anniversary of Earth Day was celebrated yesterday with parades, cheerleaders and the world's biggest energy-efficient light bulb.

While the Soviet Union is showing more open concern about the after-effects of the Chernobyl nuclear disaster, the US is imbued with the spirit of Earth Day 1990. The sun shone on the great lawn in Central Park, where groups such as the B-SOs, Eddie Brackley and the Roches, and a host of politicians and entertainers, entertained the crowds. Mr David Dinkins, New York's mayor, and the dean of the Cathedral of St John the Divine both spoke at the event, which was also known for prostitution and preservation.

In a packed bar in Hoboken, New Jersey, the crowd gave money to Greenpeace and danced enthusiastically to the Ballad of Gary Gilmore and other local hits.

The original Earth Day, which was started in California, is credited with prompting the first US Clean Air and Clean Water acts, and the creation of a government watchdog agency, the Environmental Protection Agency.

## Karen Zagor attends an environmental extravaganza in litter-strewn Manhattan

Twenty years later it has turned into a multi-media nationwide three-day extravaganza. Big businesses have set up stalls to show how concerned they are about environmental problems. Shabbies, which makes personal and household products, paid \$50,000 (£30,500) to be the first official corporate sponsor of the event. In Texas and Louisiana, the Fina Oil and Chemical company sponsored recycling projects, tree plantings and highway clean-ups.

While some environmentalists applaud the sentiment behind Earth Day and the growing corporate awareness of pollution problems, others are concerned that the festivities will promote complacency and that the corporate involvement is hype.

"Earth Day is in the sense of raising general awareness, but I'll withhold judgment on its enduring aspects for at least six months," said Mr Russ Weiss, who works at Wetlands Preserve, a nightclub in New York which boasts organically

grown food and an ecological information centre.

There are some encouraging signs that the nation is taking its pollution problems seriously. Earth Day 1990 was ushered in by overwhelming Senate approval for tougher clean air legislation. The compromises involved please neither environmentalists nor the far right, but the legislation is nevertheless a big step.

New York, which was dubbed the pollution capital of the world 20 years ago, is less polluted than it was in 1970.

But the problems remain gargantuan and the city government is strapped for cash. Each of New York's 7m residents produces five pounds of rubbish a day, about twice as much as the average European. In an attempt to improve the city's air, Mayor Dinkins has declared a moratorium on all new garbage incinerators, and older incinerators have been replaced with garbage compactors.

As the waste continues to mount, one member of the animal kingdom is thriving. Despite extermination efforts which include sprinkling Central Park with rat poison, rats are vying to outnumber humans in the city. At the moment, the ratio is one to one.

## 'European pillar for Nato' meeting today

By Robert Mauthner, Diplomatic Correspondent

FOREIGN and Defence Ministers of the nine-nation Western European Union will today discuss practical steps for creating a European pillar of Nato, including the formation of multinational military units.

The Ministers, meeting in Brussels under the chairmanship of Mr Gaston Eyskens, Belgian Defence Minister, will have before them a specific proposal, for creating an embryonic European army, from Mr Willem Van Eekelen, WEU Secretary-General.

"Such a European multinational force would enable us to identify ourselves more clearly in relation to the Americans," Mr Van Eekelen, a former Dutch Defence Minister, said before the meeting. At the same time, it would answer US demands that the European members of the Atlantic Alliance should share more actively in their own defence.

Mr Van Eekelen considers the formation of multinational units in Europe would be an important contribution to solving the defence problems of a unified Germany, but he stressed the German problem was only one aspect of his proposals.

"I want to proceed step by

step," the Secretary-General said. Initially, he proposes the formation of a British-Dutch-German unit of divisional strength, with each participating country contributing one brigade of about 4,000-5,000 men, probably stationed in West Germany.

"I am thinking of a highly mobile situation," he said. But the UK, which supports the plan in principle, wants each country to contribute a division of some 15,000 men.

Mr Van Eekelen sees these multinational units as coming under Nato's integrated command. But it seems as if such a plan would have to exclude France for the moment, since the French have not been a member of Nato's integrated command structure since 1966.

Nor is it clear how the proposed new multinational units would relate to the Franco-German military brigade, which the two countries have set up at a bilateral level.

Another political problem likely to arise if present Franco-German plans for a European Community political and security organisation materialise is what would be the relationship with a security organisation grouping only nine of the EC's 12 members.

## Bangladesh aid pledges scaled down

By William Dawkins in Paris

WESTERN aid donors yesterday pledged \$1.8bn (£1.1bn) of soft loans and grants for Bangladesh in the coming year, far less than the \$2.5bn it had been asking for and 22 per cent less than last year.

The 19 members of the World Bank aid group, meeting in Paris, scaled back the requests because of concern over the Government's recent economic management. This exacerbated the impact of floods, so that growth in gross domestic product halved from earlier levels to 2 per cent during the past two years, picking up to an expected 5 per cent this year.

Mr Mohammed Abdul Munim, Finance Minister, said he was not disappointed but added: "This shows a new atmosphere in the aid climate. In the future, we can see there will be a more vigorous examination of the cost effectiveness and utilisation of aid."

For the first time in recent years, Bangladesh will be subjected next autumn to a mid-financial year review by the World Bank group. By then Mr Munim expects five more countries to come forward with further pledges.

## POLAND'S Solidarity trade union has furthered Mr Lech Walesa's campaign to become the country's president by overwhelmingly re-electing him as its leader.

Delegates at Solidarity's second national congress on Saturday not only handed Mr Walesa - pictured right - a crushing victory over two rivals for the leadership, but by implication endorsed his dream of installing a "president-unionist" in Warsaw. Yesterday the congress also called for new elections to parliament.

Mr Walesa was re-elected chairman with 78 per cent support, compared with the 55 per cent he won at Solidarity's previous congress in 1981.

THE WEST German Government is likely to be flexible over forthcoming monetary union talks with East Germany but its main proposals are not expected to depart radically from suggestions by the Bundesbank three-and-a-half weeks ago, Bonn officials said yesterday.

The officials were speaking before a meeting between Chancellor Helmut Kohl and ministers, who were due to deliberate until late yesterday evening on a planned economic treaty between the two East German states.



## Bonn flexible on German monetary union

By David Marsh in Bonn

A further meeting between Mr Kohl and leaders of the three-party Bonn coalition is due this morning. Mr Kohl wants to finalise details of the treaty by the end of the month, but that German monetary union can take effect after a necessary two-month preparation by the July 1 target date.

East German finance ministry officials visited Bonn at the end of last week to study West German budgetary planning. This was part of preparations for East Germany to introduce for the first time, a proper budget from July 1.

Mr Manfred Carstens, parliamentary state secretary in the Bonn Finance Ministry, said that East Germany was running a budget deficit estimated at an annual DM20bn-DM40bn (£7.2bn-£14.4bn), likely to rise next year to DM40bn-DM60bn. But he repeated that Bonn would not increase taxes to plug the gap.

Mr Kohl has come under heavy pressure from East Germany to soften the terms of monetary union recommended by the Bundesbank. The central bank suggested that most East German assets and liabilities, except smaller savings accounts, should be exchanged into D-Marks at a rate of 2 to 1.

Mr Lothar de Maizière, the new East German Prime Minister, is insisting on a general 1 for 1 conversion rate, pleading that otherwise East German wages and pensions, already low, will be halved.

West German officials reject as "nonsense" East German protestations about a halving of pensions and wages, saying that Bonn will offer a differentiated solution, which will allow wages to be set by market conditions.

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## Pope summons synod to discuss eastern Europe

POPE John Paul summoned an unprecedented synod of bishops to discuss the Continent's democratic revolution during his weekend visit to Czechoslovakia, Reuters reports.

The Polish Pontiff made the surprise announcement of a European-wide synod at the end of a mass in Velehrad, cradle of Slavonic Christianity.

The Pope, who himself played a leading role in inspiring democratic changes in

eastern Europe, has turned his tour into a celebration of the collapse of Communism. Addressing 250,000 people at a mass in Velehrad, the Pope said: "Behold the night is over, day has dawned anew."

Vatican spokesman Joaquin Navarro-Valls said the date or place of the synod, at which representatives of all European bishops' conferences would gather, had not yet been set.

## Mexico may halt co-operation with US in drugs fight

By Richard Johns in Mexico City

MEXICO has threatened to stop collaborating with the US in the fight against drug trafficking unless the alleged kidnapping from Guadalajara of Mr Humberto Alvarez Machain is "satisfactorily" explained.

The warning was given by Mr Enrique Alvarez del Castillo, the Attorney-General at the end of a conference held in the Pacific resort centre of Ixtapa at which chief law enforcement officers of 32 different countries reached a wide-ranging agreement on co-operation in combating the narcotics trade.

Mexico's complaint about a possible

infringement of its sovereignty is exceptionally serious given the commitment of President Carlos Salinas de Gortari's administration to waging war on the trade in close collaboration with the US. Washington has pledged to grant Mexico preferential treatment in the economic and commercial fields.

Before the meeting Mr Salinas said that any efforts by an external power to pursue law-enforcement activities within Mexico "would violate the most elemental forms of international law."

A major diplomatic confrontation seemed to be looming this weekend.

A spokesman for the Mexican Attorney-General's office said yesterday that the Government would seek the extradition of DEA agents responsible for the alleged kidnapping of the Guadalajara physician.

The Mexican Attorney-General said at the close of the Ixtapa conference that he hoped his department would complete an investigation into the disappearance by today.

Mr Dick Thornburgh, US Attorney-General, has promised an internal review of the case.

The DEA, a part of the Justice

Department, has denied allegations of involvement either directly through its own agents or by hirelings.

Mr Humberto Alvarez Machain is one of 19 people accused by a Los Angeles Grand Jury of the torture and murder in 1985 of Mr Enrique Camarena Salazar, the US Drug Enforcement Administration agent whose death has been a major source of friction in relations between the two countries ever since.

The Mexican allegation is that Mr Alvarez was abducted on April 3 and handed over to the DEA in El Paso, Texas.

The poll attributes some of Mr Mitterrand's falling popularity to the perception that he is giving too much time to international affairs instead of day-to-day issues such as immigration and corruption. The results come after Mr Mitterrand's meeting with President Bush of the US, and ahead of his two-day summit with Mr Helmut Kohl, West German Chancellor, in Paris this week.

The Government's standing has been hit by its recent law pardoning political workers suspected of financial corruption, while Mr Mitterrand's leadership style is being criticised because of his apparent misjudgment of a power struggle inside the Socialist Party. Last month, Mr Mitterrand's own followers scuttled his attempt to promote Mr Laurent Fabius, commander-in-chief, as party Secretary-General.

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## Commission reshuffles cards for company tax coherence

Brussels is adopting a new approach to iron out the wrinkles between the EC's 12 systems, writes Lucy Kellaway

EUROPE'S big companies want it badly. So does the Commission. So too do most member states. Without it there will be no Single Market for companies. But will it happen? Doubtful.

It is a coherent system of company taxation. For some 20 years, the Commission has been putting forward new directives, revising old ones, and launching fresh initiatives. The result so far: precisely nil.

Last week it came up with yet another new approach. It reshuffled the pack of yellowing directives, dropped one, and introduced two more. Today, three proposals will be put to finance ministers backed by the threat that unless they approve them, the matter will be taken up with heads of governments in Dublin in June.

This is no small change of emphasis: what the Commission is now proposing is much less ambitious than its earlier plan. Then the aim was to have a standard rate of corporate taxation in Europe. That idea, as Mrs Christiane Scrivener, European Commissioner for Tax, said last week, has been overtaken by events, and now the game is not harmonisation but "mutual recognition" and

co-operation between tax collectors in member states. This means removing the wrinkles between the 12 tax systems, to ensure that companies which operate in more than one member state are not penalised, compared to those that do business in just one. The new aim is to do the minimum compatible with the Single Market: to remove any tax barriers that are seen as getting in its way.

Still, getting all member states to agree on the three existing measures is not going to be easy. The modest parcel has been stuck for 20 years; and while ministers have prevaricated, the need for such directives has steadily increased with the growing spread of companies' businesses across member states.

The three directives are:

- Parent-subsidiary directive. This would abolish withholding tax on dividend payments from subsidiaries in one country paid to parent companies in another.

- Merger directive. This would remove the capital gains tax that can arise on cross-border mergers. The tax would be deferred so long as the acquired company went on being a taxpaying entity in its

home member state.

- Arbitration directive. This would involve setting up a body to settle disputes on double taxation and transfer pricing between member states.

European companies regard agreement on these as absolutely essential. The CBI, the Institute of Directors and Unice, the federation of European employers, have been lobbying for years to get the measures through, arguing they constitute one of the biggest remaining barriers to doing business across the EC.

The most urgent directive is the first, which affects almost all European companies with subsidiaries in more than one EC country. It is also the most seriously stuck. The problem is a steadfast refusal by West Germany to give up its withholding tax on dividends; and even a compromise put forward by Spain a year ago which would have allowed the tax to be phased out gradually failed to do the trick.

In spite of cajoling and threats from businesses and the Commission, Germany has yet to indicate any willingness to move. Revenue it stands to lose might amount to some DM150m (£55.5m) a year - hardly relevant against its

total tax revenues. Yet the issue has a political importance: it might involve giving foreign companies an advantage unavailable to domestic ones, and is therefore not the kind of step the government is likely to take in an election year.

In contrast, the mergers directive is of potential, rather than actual, importance. Were a foreign company to take over, say, a German company with undisclosed reserves, the potential capital gains tax bill might make the whole operation unattractive.

Indeed the existence of such a tax threat is one of many reasons why such cross-border mergers do not happen; and the greater the progress made on removing the other barriers to cross-border mergers, the more important will it become to remove the tax barrier.

Until now, the Commission has been reluctant to separate the three directives, with the fear that the first one might then be stuck for ever. In its new mood, however, it seems prepared to put them forward together, separately, or in any other way that will increase their chances of passage.

In addition, it is putting the final touches to two more. The first is like the parent-subsidiary directive, but would apply to interest and royalty payments between parents and subsidiaries.

The second, more radical, directive would let companies use up losses of subsidiaries in one country against profits in another. This measure, likely to be put forward in the summer, is strongly supported by business, but is likely to meet with powerful resistance by member states.

The impossible struggle in the field of tax is in marked contrast to the progress made in other areas of the 1992 programme, and shows what happens when decisions have to be taken unanimously. At this rate, by 1993 a company may be able to sell the same products in all member states, but may be penalised by the tax man for doing so.

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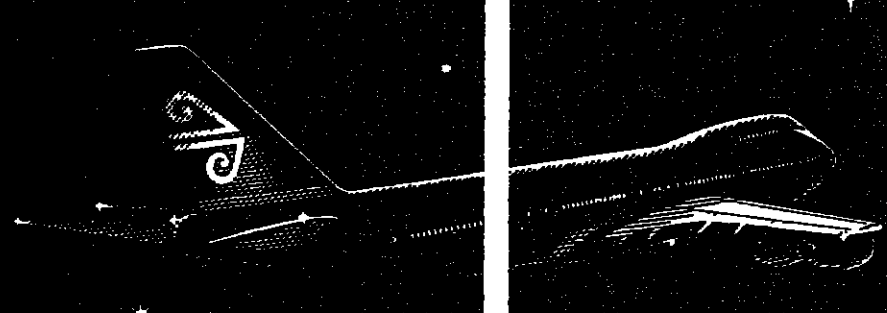
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The impossible struggle in the



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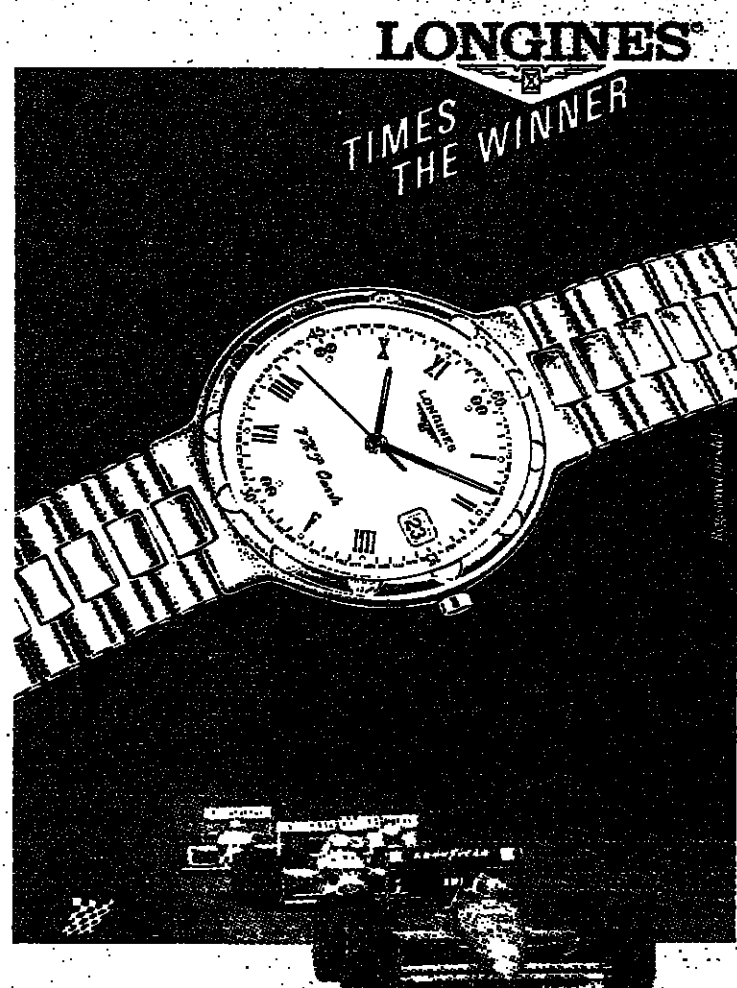
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## Chancellor gives stark warning on high pay claims

By Rachel Johnson

MR JOHN MAJOR, the UK Chancellor of the Exchequer, has delivered a stark warning to his ministerial colleagues that the Treasury will not fund public sector pay awards which threaten its spending targets and anti-inflation strategy.

His warning, spelled out to the full Cabinet last week, comes ahead of today's re-opening of pay negotiations between unions and British Rail and against a background of the threat of industrial action in the power industry.

It is designed to pre-empt demands from departmental ministers that unions' pay claims should be conceded to avoid industrial strife and to set the tone for what is expected to be the toughest round of public spending negotiations since the early 1980s.

Mr Major told the Cabinet that the Treasury would not provide extra cash to fund large pay increases for rail, underground and power workers because the pressures on public spending and inflation have never been more severe.

In what was seen in Whitehall as a pre-emptive strike, Mr Major emphasised the need for the Government to maintain a tight fiscal stance and warned

that high settlements could trigger a wage-price spiral.

His message came at the start of skirmishes between the Treasury and spending departments on their budgets for the 1991-92 financial year.

The warning also foreshadows what promises to be a difficult week for the Government. The rail unions re-open their talks with British Rail today and with London Underground on Thursday. Both employers have offered 8.5 per cent rises - inflation is currently at 8.1 per cent - which the unions have rejected, and demanded settlements of about 10 per cent.

Power workers have threatened selective industrial action if employers do not increase their rejected 8.5 per cent pay offer. Rising inflation is the main reason for the unions' rejection of offers.

Pay settlements continue to outstrip productivity improvements in manufacturing, figures from the Confederation of British Industry show. Pay deals in the first quarter are averaging 8.5 per cent, compared with 8.1 per cent in the previous quarter. There has been a slight decline in productivity growth from 7 per cent last year to 6.5 per cent.

## UK NEWS

## Barclays credit card charge expected

By David Barchard

BARCLAYS, Britain's largest UK clearing bank, is expected to announce tomorrow that it intends to follow Lloyds and introduce annual charges for its 9m credit card customers.

Barclays is by far the largest credit card issuer in the UK. If it introduces annual charges, other large banks such as National Westminster and Midland will come under strong pressure to follow suit or face mounting losses.

Barclays yesterday declined to comment on reports it would introduce a £10 annual charge later this year for Barclaycard, its Visa card. This would be £2 below the annual charge introduced by Lloyds last month on its credit card.

An annual charge would have to be announced at least six months in advance to give cardholders sufficient time to close their accounts if they were not willing to pay.

Lloyds was strongly criticised by Sir Gordon Borrie, director general of fair trading, for failing to secure the explicit consent of its 3m credit card customers before it introduced an annual charge.

Barclays announced early last year it was considering an annual charge because of the declining profitability of its credit card business.

## MP defends head of Iraq gun company

By Ralph Atkins

CONSERVATIVE Member of Parliament Sir Hal Miller, yesterday said he would defend in court if necessary the managing director of Walter Somers in 1988, the West Midlands company at the centre of Iraqi gun controversy.

Sir Hal said that, if called, he would reveal the contents of a letter he sent the Prime Minister last week. In it, he says, are details of telephone calls made two years ago to Government departments which raised concerns voiced by Walter Somers.

Although the MP for Bromsgrove said he had "no quarrel with the Government", the political embarrassment surrounding the affair shows no sign of abating.

The Ministry of Defence and Department of Trade and Industry are likely to face further pressure this week to disclose how much they knew about the contract and, if they were warned, to explain why the companies involved were advised that no export licence was required.

Sir Hal, a former parliamentary private secretary to the Secretary of State for Defence, said his "sole concern" was "to protect the reputation and honour" of Dr Rex Baylis, who was managing director of Walter Somers at the time.

## Unqualified workers are willing to pay for training

By Lisa Wood, Labour Staff

UNSKILLED workers would be prepared to take out soft loans to pay for training, according to a report by Full Employment UK, the policy consultancy.

The report, commissioned by London East's Training and Enterprise Council (Tec), examined the reaction of groups of people, including the unemployed, the low-paid and adults taking part in government training schemes, to training ideas.

Unskilled workers interviewed in the preparation of the report expressed a strong interest in part-time training. The two key barriers they identified were lack of counselling and lack of finance.

Interviewees said they would be prepared to borrow money and favoured a loans facility to be linked to a counselling service - with the report also advocating new advice and guidance services to be set up.

## Steering clear of the water pay whirlpool

Diane Summers sees how the privatised companies are coping with local bargaining

THE bread has, in most places by now, been cast upon the waters.

The 10 newly-privatised water companies in England and Wales are in the final stages of negotiating or have already reached agreement with at least their manual employees on pay for this year. For almost all of the companies it has been their first taste of local bargaining.

The initial signs are that the water companies will not be sucked into a pay whirlpool. Privatisation and the end of national bargaining, coupled with skill shortages, could still lead to competitive fishing in an increasingly expensive pool of labour. To avoid this the companies are starting to increase the size of the pool by improving the skills of their existing workforce.

The money on offer this year is, in itself, unremarkable. Most of the companies will settle with their manual and craft workers for around 9 per cent.

The more interesting feature of many of the deals is a commitment by unions to discuss training, certification, regrading and more flexible ways of working.

The French have helped to lead the way: 12 out of the 29 privately-run companies that were already in existence before last year's flotation have been purchased by French concerns. Their tradition is for a higher level of training, fewer unskilled workers and less job demarcation. The French have reinforced the message that training is important in overcoming skill shortages and inflationary wage spirals.

The learning will be mutual. While Britain has privatised water, other European countries have retained public ownership and brought in private contractors under licence. Which system is more efficient will depend, in part, on the longer-term gains to be had from this year's pay negotiations.

The UK water industry has other domestic as well as wider European experience to draw on: it benefits from not being among the first to privatise.

Mr Chris Trinder, senior research fellow at the Public Finance Foundation, the research arm of the Chartered Institute of Public Finance and Accountancy, has been tracking this year's water negotiations and is in a good position to make comparisons between sectors. He points to gas, for example, as a sector that is still struggling and from which water can draw lessons.

"The unions put all their energies into trying to stop gas being privatised. They lost a lot of their clout in the process. What we've got in gas is a major review of the pay structure now taking place. Three years after privatisation they are still trying to get the flexibility that water is already achieving," he says.

Electricity, in turn, has the opportunity to learn from both

gas and water. According to Mr Trinder: "The unions have accepted that there is nothing they can do to stop the privatisation of electricity. They are getting much more involved in trying to get things in place from the start."

However, there could be conflict ahead in the electricity industry if there is an attempt by the employers - as seems likely - to end national bargaining. The unions, in particular the Engineers' and Managers' Association, have already expressed strong opposition to decentralised pay bargaining.

Abandoning a national pay framework post-privatisation is not automatically the best course, Mr Trinder points out. "Electricity is not being broken up as much as had been originally thought. It may be that a skeleton national framework avoids some duplication of costs," he says.

While training, certification and regrading are principally about meeting skills shortages

and avoiding escalating labour costs, there is also another aim: further reductions in staffing levels.

The emphasis has always had to be on reliability and purity of supply: two machines were there to do the same job just in case one broke down. Much the same view was taken of staffing, and jobs were more defined by the need for reliability than efficiency.

Things became less comfortable in the 1980s and government pressure on the water authorities led to a 20 per cent reduction in manpower over a six or seven-year period. These cuts were achieved in a reasonably amiable environment (the notable exception being the strike in 1983) but it is not quite so easy to see how the next tranche of economies can be achieved without an end to some existing demarcations. Hence the emphasis in this year's talks on teamworking, multi-skilling, self-supervision and other flexibility measures.

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FINANCIAL TIMES

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## UK NEWS

## Lotus near to limit on growth as car maker

By John Griffiths

GROUP LOTUS, the sports car maker and engineering consultancy taken over by General Motors four years ago, is reaching its growth limits in the UK.

Any further expansion will come mainly from consultancy engineering centres being set up in overseas markets where there is demand for Lotus's expertise, according to Mr Michael Kimberley, chief executive at Group Lotus.

As the company prepared to start deliveries of its new Elan sports car, Mr Kimberley ruled out any increase in car output beyond the 5,000-a-year level envisaged for the early 1990s.

The engineering consultancy business that shares Lotus's car production side of the business has also arrived at "critical mass", Mr Kimberley said.

Lotus employs 680 people producing the Elan and Excel luxury sports cars at a rate of just over 1,000 a year, and is preparing to start commercial production of the Elan at an eventual rate of 3,000 a year.

The assembly workforce will have grown by 150 by the time a new Lotus "super-car", the M300, is added to the range around 1992. In a separate purpose-built facility on the site, a further 47 people are preparing for production of a 170mph-plus version of GM's Opel Omega/Vauxhall Carlton executive car. Production is due to start in June at 400 a year. It was designed and developed with Opel's Technical Design Centre.

Mr Kimberley was adamant that Elan production would not be expanded beyond 3,000 a year, even though Lotus is already being criticised for seriously underestimating potential worldwide demand for the model.

Some 4,800 orders have been placed for the car, although dealers have only received cars for use as demonstrators so far. Production is running weeks late because Lotus is fine-tuning quality standards from outside component suppliers before starting deliveries.

Lotus's ideal is to derive engineering revenue from Europe, North America and the Far East equally, Mr Kimberley said. However, having recently returned from Tokyo, he warned that the Japanese were setting a product development pace that western industry would find increasingly difficult to match.

Western governments, financial institutions and motor industries needed to adopt the same long-term, co-operative strategies as the Japanese to ensure their survival, he said.

## Inflation likely to stay higher than Government hopes

By Andrew Marshall, Economics Staff

INFLATION is unlikely to come down as rapidly as the Government hopes, according to the latest Financial Times survey of forecasts for the UK economy, and as a result interest rates will stay high until the end of the year.

Expectations of high interest rates have increased as projections for inflation have been raised after the Budget last month, the survey shows.

The survey, which averages projections by 22 City institutions, private-sector forecasters and intergovernmental bodies, indicates that economists believe inflation will be 7.7 per cent at the end of the fourth quarter, whereas the Treasury is projecting 7.25 per cent.

However, short-term interest rates for the end of the year are forecast at 14 per cent - only 1.25 percentage points below where they stand now. That implies that the government can afford perhaps one base rate cut by the end of the year.

Forecasters expect greater expansion in both manufacturing output and consumer spending in 1990 than does the Treasury, and consequently they see GDP expanding at 1.4 per cent, against the Government's expectation of 1.0 per cent. Fixed investment is expected to shrink as companies scale down their plans under pressure from high interest rates, falling profit forecasts and weak sales.

None of the forecasters predicts recession, although the Henley Centre and BZW predict growth at or below half a per cent. Lloyds Bank has the gloomiest forecast for inflation, at 9 per cent by the end of the year, but most forecasters expect the RPI to be over 8 per cent.

Exports are forecast to grow at over 8 per cent, giving the economy a boost at a time of weakening domestic demand. The Treasury's forecast of a

FORECASTS FOR THE UK ECONOMY																							
(Unemployment, average over period. Balance of payments and PSBR in £bn; PSBR for financial years 1990-91 and 1991-92. Interest rates fourth quarter. Retail price inflation; year to fourth quarter. Others are percentage change over 12 months. Dash indicates information not available)																							
		Gross Domestic Product		Consumer spending		Manufacturing output		Fixed investment		Retail price inflation		Unemployment - millions		Balance of payments current account		Public Sector Borrowing Requirement		Interest rates (3 month interbank)		Exports volume		Imports volume	
Date		1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990-91	1991-92	1990	1991	1990	1991	1990	1991
Treasury	Mar	1.0	1.5	1.25	1.0	0.0	0.75	-1.25	-0.75	7.25	5	-	-	-15	-12	7	3	-	-	8.5	1.25	-	-
Confederation of Industry	Apr	1.0	1.8	1.3	2.0	0.6	2.2	-1.3	1.5	7.5	4.5	1.6	1.65	-14.8	-16.1	-7.7	-5.4	14.5	12.0	7.5	3.8	1.4	4.1
DRI Europe	Apr	1.3	2.7	0.9	2.4	1.7	4.5	-8.0	-0.1	7.8	4.4	1.7	1.3	-12.1	-10.3	-5.9	-1.2	14.3	10.9	6.1	5.1	-1.1	3.4
Henley Centre	Apr	0.4	2.8	1.0	2.8	0.8	2.7	-2.8	1.2	8.0	5.0	1.6	1.7	-13.2	-14.6	-7.3	-9.8	15.0	11.5	5.9	4.3	0.5	4.5
Ernst & Young ITEM Club	Mar	1.2	2.8	0.9	1.3	0.4	3.3	-0.7	1.5	7.8	4.5	1.7	1.7	-14.4	-10.3	-8.2	-5.0	14.0	11.0	6.3	5.8	-0.2	3.1
Liverpool University	Apr	1.5	2.8	1.0	0.8	-	-	-	8.1	4.8	1.7	1.5	1.5	-12.9	-7.3	-11.6	-11.7	13.9	11.8	-	-	-	-
London Business School	Mar	0.9	2.3	0.8	1.1	1.8	2.7	0.9	3.7	8.2	4.9	1.7	1.8	-14	-13	-7.3	-4.1	14.0	12	8.7	3.1	1.1	2.7
Oxford Economic Forecasting	Apr	1.5	2.2	1.6	2.1	0.8	2.4	-2.5	1.8	7.5	4.5	1.6	1.6	-15.3	-9.7	-7.2	-4.0	14.0	10.5	8.2	6.0	0.7	5.0
National Institute	Feb	1.4	2.3	1.7	2.0	-2.0	0.9	-2.8	3.9	6.8	4.6	1.6	1.7	-11.4	-10.9	-7.6	-11.9	12.4	10.4	8.5	6.0	3.3	5.6
OECD	Dec	1.3	1.9	1.4	1.8	1.3	1.9	2.0	2.1	6.5	5.2	-	-	-19.0	-18.5	-	-	14.5	13.4	8.0	6.3	3.6	4.2
European Commission	Oct	2.1	-	2.1	-	3.7	-	1.7	-	5.5	-	-	-	-17.9	-	-12.1	-	12.0	-	7.1	-	2.0	-
Barclays de Zeeuw	Apr	0.5	2.5	1.0	2.5	0.0	3.0	-3.0	0.0	7.5	3.5	1.7	2.0	-11.0	-7.0	-7.5	0.0	12.0	10.0	8.5	6.0	-1.0	4.0
Credit Suisse First Boston	Apr	2.2	2.5	2.0	2.0	1.5	3.0	-2.6	-2.0	7.8	5.6	1.6	1.7	-15.0	-10	-8.0	-10	15.0	13.0	7.7	5.5	0.7	2.0
Goldman Sachs	Apr	1.0	1.8	1.3	2.0	0.4	3.3	3.5	-5.9	6.9	4.0	1.6	1.7	-11.3	-15.4	-8.0	-3.0	13.5	11.0	9.4	6.5	0.9	6.4
Greenwell Morgan	Apr	2.1	3.4	1.4	2.5	1.5	4.0	0.2	0.9	8.6	4.7	1.7	1.7	-13.0	-12.0	-8.0	-3.0	14.0	11.0	10.2	6.2	2.0	3.9
Hoare Govett	Apr	1.0	2.5	1.8	2.5	2.0	4.0	-2.5	0.1	6.5	3.6	1.7	1.8	-14.4	-12.6	-6.5	-7.0	13.0	10.0	9.5	7.4	4.6	6.5
James Capel	Apr	0.7	2.0	0.9	1.2	0.2	1.6	-3.4	-0.2	8.6	4.8	1.7	1.9	-15.7	-11.5	-7.0	-7.0	15.0	11.5	8.5	6.2	-0.7	3.7
Lloyds Bank	Apr	1.3	2.0	1.5	1.9	0.6	3.0	-1.6	2.6	9.0	5.0	1.7	1.8	-15.0	-12.2	-7.0	-6.0	14.0	11.0	7.2	5.3	2.3	4.1
Morgan Grenfell	Apr	2.4	2.8	3.0	2.8	1.4	2.4	0.0	2.1	7.5	5.5	1.6	1.6	-16.0	-14.2	-4.7	-9.5	15.5	12.0	6.3	5.4	0.0	4.1
National Westminster	Apr	0.8	2.8	1.5	2.6	1.5	4.2	-1.5	2.0	7.6	4.0	1.9	2.0	-15.0	-11.5	-7.0	0.0	13.0	10.5	6.3	5.0	0.5	3.5
Phillips & Drew	Apr	0.8	1.9	1.1	1.1	-0.0	1.1	-4.7	0.4	8.5	2.4	1.8	2.2	-11.0	-5.9	-4.7	0.0	14.0	10.0	10.0	6.4	1.5	2.8
Shawson Lehman Hutton	Apr	2.0	2.4	1.7	2.1	1.0	2.6	-1.3	1.6	3.0	5.7	1.7	1.8	-14.0	-12.0	-4.0	-1.0	15.0	13.0	8.4	5.7	1.7	4.0
Warburg Securities	Apr	2.0	2.3	1.8	2.3	1.5	2.5	0.7	0.5	7.2	4.5	1.7	1.7	-16.0	-12.5	-7.0	-5.0	14.0	10.0	7.8	4.2	1.5	3.8
FT average	-	1.4	2.4	1.4	2.1	0.9	2.8	-1.3	0.9	7.5	4.6	1.7	1.7	-14.3	-11.7	-7.3	-5.2	13.9	11.3	8.1	5.5	0.8	4.1
Average of City forecast	-	1.4	2.4	1.5	2.1	0.9	2.8	-1.4	0.2	7.7	4.5	1.7	1.6	-14.0	-11.4	-6.5	-4.3	14.0	11.1	8.4	5.8	0.8	4.1

NOTES: Treasury: 1991 forecasts based on first half, RPI is Q2 on Q2. GDP: Treasury, compromise measure. DRI, Liverpool, LBS, National Institute use output measure. Others use average measure. Consumer spending: Liverpool, non-durable consumption. Retail price inflation: Liverpool, av for year; OECD, average consumer prices. Interest Rates: Liverpool, Treasury bill average for year; CBI, DRI, LBS, Lloyd's, NatWest, Hoare Govett use base rates. National Institute, Treasury bill. Henley uses PSBR on calendar year.

current-account deficit of £15bn for the year is seen as slightly pessimistic, with most forecasters expecting the output to be less. That is principally because import volume is expected to grow by only 0.8 per cent, against the government forecast of 1.25 per cent.

Forecasters for the public-sector debt repayment are the most erratic, although they average at a figure close to the Government's projection of £7bn. The PSBR is the difference between two large numbers, and hence there is a great deal of room for slippage. Three forecasters predict a

return to a balanced budget in 1991-92, with a PSBR of zero, while three forecasters see a PSBR of £10bn or more.

The change from January's survey of forecasts is quite marked. The average forecast for inflation has risen by about 2 percentage points, and the forecast for the end-of-year short-term interest rate has risen by 1 percentage point.

Exports are still expected to save the day, with volume growth in exports up slightly from the January survey. Predictions of import volumes have fallen by over half a percentage point.

For 1991, the forecasts are slightly more optimistic than in the last survey, although the City's forecast of GDP growth has fallen slightly.

Expectations of consumer spending and manufacturing output are up, although fixed

investment is seen as growing more slowly than had been previously thought. Interest rates are expected to remain 1 percentage point higher for 1991, staying high even when inflation falls to 4.5 per cent.

On the whole, there is very little difference between the averages of all forecasters and the City forecasts.

The forecasts are similar to a comparison of independent forecasts made by the Treasury. The main difference is the pessimism over inflation, which does not come through on the Treasury's version of independent forecasts. That is

largely because the inflation bears on the FT's forecast are not on the Treasury's list. The FT also includes some more up-to-date forecasts.

As far as 1989's efforts are concerned, the rapid deterioration in the economic situation last year took many forecasters by surprise, not just the Treasury.

Although the FT's post-budget average forecast for growth of a year ago was about right, at 2.5 per cent (the output was 2.25), the other forecasts were off target. Retail price inflation reached 7.5 per cent, (forecast at 5.7), the current-account def-

icit was £21bn (£15.4bn) and the PSBR for 1989-90 was £2bn (£15.3bn). Worst of all, short-term interest rates ended the year at 15.1 per cent; the FT average forecast was 11.9 per cent, and the highest was 13.3 per cent.

The usual health warnings apply to the forecasts; moreover, the averages are slightly distorted by out-of-date forecasts from the European Community and the Organisation for Economic Co-operation and Development. The averages are unweighted, and no allowance has been made for different definitions of variables.

## Employment study finds switch to service sector

By Ian Hamilton Fazey, Northern Correspondent

A SHIFT from manufacturing to the service sector is shown in a jobs study of Yorkshire and Humberside for the six years to 1987.

The study, by Leeds University's School of Geography and the Yorkshire and Humberside Development Association, found a "terrific" decline in full-time jobs and a "considerable" increase in female part-time jobs.

More than 62 per cent of jobs were in services in 1987, compared with only 55 per cent in 1981, the study found.

Over the six years, nearly 97,000 jobs were lost in manu-

facturing but over 90,000 jobs were created in services. In manufacturing, fewer than 2,700 jobs went in 1984-87, compared with more than 94,000 in the previous three years.

The study shows that male full-time employment was 888,000 by 1987, a fall of 12.4 per cent over six years. The number of women in part-time jobs rose by 12.5 per cent to more than 391,000.

*Economic Development and Future Prospects, Yorkshire and Humberside Development Association, Wellington Street, Leeds, LS1.*

## Crossed lines on a tariff for international calls

Hugo Dixon on the intricacies of world phone rates

SINCE the Financial Times disclosed this month that phone users were being massively overcharged for international calls by a cartel, British Telecom has been anxious to portray itself as a victim of the cartel rather than an active supporter of its practices.

Mr Iain Vallance, BT's chairman, has had an eye on influencing both the investigation of international prices being conducted by the Office of Telecommunications and the government review of telecommunications policy starting in November.

However, a confidential document written in 1987 - and obtained by the FT - knocks a hole in the case BT has been trying to make. As well as showing that BT's profit margins on international calls are nearly 80 per cent, the documents provide a wealth of information about the costs and profitability of international traffic, likely to apply to most other members of the cartel as well as BT.

BT's argument rests on two pillars: that its international prices are low by comparison with other countries and have been kept down by the arrival of Mercury Communications in the mid 1980s as a competitor; and that its hands are tied by the obscure accounting rate system used by the cartel to share international revenue.

Accounting rates are used to determine how much BT pays phone companies in foreign countries for delivering calls to their final destination.

The first argument put forward by BT is only partly correct. Although it has lower prices on intercontinental routes than most other phone companies, its own documents show that for calls in Europe its performance is only average.

More important, since the arrival of Mercury, BT's international prices have actually increased by an average of 17 per cent at a time when costs were plummeting.

The explanation for that per-

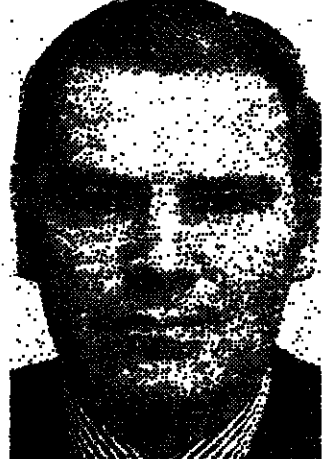
BIGGEST SUPPLY COUNTRIES	£m
W Germany	5.8
US	5.0
Nigeria	2.5
Norway	2.4

BIGGEST DEFICIT COUNTRIES	£m
Pakistan	9.6
Japan	5.7
Israel	4.6
India	3.2
France	3.2
Egypt	2.6
S Arabia	2.4

BT's financial arrangements with foreign telephone companies: projected net payments 1987-88

\*BT receives more than it pays out

†BT pays out more than it receives



Iain Vallance: an eye on influencing two inquiries

verse movement in prices is that BT decided that the best way of meeting the threat from Mercury was not to launch a price war - which would have hurt both of them - but to create an "umbrella" under which Mercury could safely set its rates. BT calculated that, so long as Mercury could say it was cheaper than BT, it would not want to undercut it any more because Mercury was even more reliant than BT on profits from its international services.

That approach was remarkably successful, as shown by the experience of pricing phone calls to Italy. Shortly before BT was planning to put up its prices to Italy by 15 per cent in 1987, it heard that Mercury had just received permission from the Italian monopoly to operate a service between the two countries.

Some BT executives argued that it would be foolish to put up prices at such a time because they would then be severely undercut by Mercury. Cooler heads argued that BT should press ahead with the price rise and that Mercury would set its rates by comparison with BT's new prices. They were proved right.

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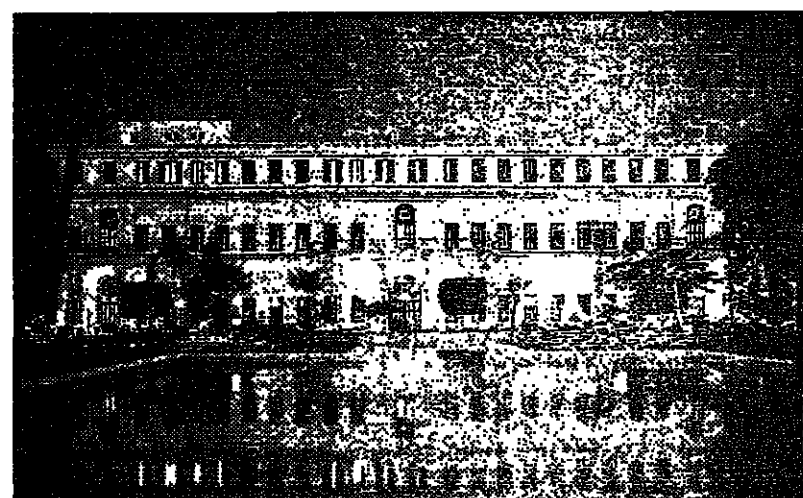
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## UK NEWS

# Tory ministers vow to reverse drift to Labour

By Ralph Atkins

GOVERNMENT ministers will go on the offensive this week in an effort to break Labour's commanding lead in the opinion polls as the local council election campaign enters its last full week.

Labour, which this week is considering proposals for overhauling its policymaking procedures, has a lead of 23 percentage points over the Tories, according to yesterday's Harris opinion poll in the Observer.

Senior Conservatives will emphasise the party's theme that a Tory council costs voters less, in spite of predictions that disquiet about the community charge, or poll tax, will cost the party widespread losses on May 3.

At the weekend, Mrs Margaret Thatcher sought to bolster party morale, telling Conservative trade unionists: "We are winning through because the policies we are sticking to are right."

Mr Kenneth Baker, Conservative Party chairman, predicted that the next general election would be "the toughest we've ever fought."

Mr Baker will take the party's campaign to the London Docklands this week, while Mr David Hunt, an environment minister, goes to Preston. The party is tackling criticism of the poll tax head-on, claiming that the best way of bringing the charges down is by voting Conservative.

Labour's campaign themes

for this week are expected to focus on education and housing as well as the poll tax. Mr Neil Kinnock, leader of the Opposition, visits the West Midlands at the end of the week. Mr Gordon Brown, the shadow Trade Minister, will be in Bradford today.

Labour's National Executive Committee will this week consider proposals for reforming its policymaking procedures.

Mr Kinnock is supporting plans to set up an elected national policy forum, which would consider policy papers before they are submitted to the party conference. The scheme will be considered alongside proposals for reducing the role of unions' votes within the Labour Party.

The plan is described by Labour officials as the "most radical since the party was formed." It aims to make policymaking more "considerate and deliberate," they said.

It would replace the present system under which amendments and resolutions are composed on the eve of the annual party conference, leading to horse trading and bureaucratic confusion.

The proposals would also see the setting up of "standing commissions," modelled on the system used for Labour's latest policy review. Such groups, studying particular areas of policy, would include members of the National Policy Forum besides other party members.

# Thatcher in the slow lane of a two-speed Europe

Philip Stephens on a Prime Minister at odds with Community partners on the pace of economic reform

THE unwelcome guest has returned to an already gloomy feast. As Mrs Margaret Thatcher battles at home with the most significant threat to her authority since 1979, France and Germany have put Europe back at the top of Britain's political agenda.

Last week's Franco-German statement calling for the completion of European economic and monetary union by January 1993 and for parallel talks among the 12 European Community states on political union was not unexpected.

Mrs Thatcher and Mr Douglas Hurd, the Foreign Secretary, have been involved in intense discussions for some weeks on how the Government should react to such an initiative. Contingency plans are well advanced but the proposals were no less unwelcome for that.

Senior ministers believe that the proposals will confront the Prime Minister with some of the most difficult choices she has faced during 11 years of office. If she does not, Mr Michael Heseltine will seize the opportunity to strengthen his claim to the leadership by emphasising his own, more "European" credentials.

None of that is to suggest that the Prime Minister faces a majority, either within her own party or in the House of Commons, eager to embrace the vision of Chancellor Helmut Kohl of West Germany and President François Mitterrand of France.



Leading Europe was Mrs Thatcher's Euro-elections message - but it is not following

points in the opinion polls and facing further domestic rows over inflation, mortgage rates and the poll tax, she has to carry her supporters with her. If she does not, Mr Michael Heseltine will seize the opportunity to strengthen his claim to the leadership by emphasising his own, more "European" credentials.

The Foreign Office, although viewed from Downing Street as an incorrigibly careless defender of British sovereignty, is also talking of the need for Europe to confront present realities rather than lose itself in grand rhetoric.

The strategy being urged on the Prime Minister by Mr Hurd is characteristically pragmatic.

European political union, only vaguely defined in the Franco-German statement, is not a phrase that prompts cheers from most Tory - or, for that matter, Labour - MPs, even from those who see Mrs Thatcher's approach as obstructionist.

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ernment's narrow political interests and Britain's international standing cannot be served by "carping" from the sidelines.

The Franco-German statement has severely dented the hopes of those who believed that the strains placed by German unification on the traditional Paris-Rome axis would allow Britain to forge a new strategic alliance with France.

So the present opposition to the principle of the Community embarking on a new round of discussions will be followed - once other leaders have taken the decision to go ahead anyway - by a range of British proposals.

Those proposals, embracing a number of institutional changes, will be finalised in time for the June summit in Dublin. Mrs Thatcher will give advance notice of her intentions at next weekend's meeting in the Irish capital.

The overall objective is similar to that agreed rather belatedly towards economic and monetary union, where Britain has tabled its own alternative to the proposals for integration contained in the Delors report.

Mr Hurd's hope is that by pushing Britain's view at an earlier stage in the discussions on political union, the Government will maximise its influence over the agenda in a way that it has so far failed on the Delors proposal.

Mrs Thatcher has apparently agreed. Those close to her were yesterday speaking of her determination to take a lead in any discussions by outlining a "constitutional approach" to the new Europe instead of the

"centralist" strategy of others. The details have yet to be finalised, but a range of options are under consideration.

One of the crucial - and most positive - suggestions is that the European Parliament should be given more direct control over the Commission's spending proposals. Another, far more tricky proposal, is that the EC treaties should be amended to provide a much clearer line between national and community responsibilities - enshrining the so-called "subsidiarity" principle.

Such ideas - perhaps alongside others to strengthen the European Court - would be presented as a "modern" approach, designed to take account of the political reality of a wider Europe which has been created by the upheavals in the East.

The obstacle - as has emerged during the present studies on monetary union - is that however positive the packaging, Britain's approach falls far short of the ambitions, however ill defined, of its partners.

Senior ministers who share the Prime Minister's scepticism towards the Franco-German proposals and believe that the present rhetoric disguises significant differences even among the enthusiasts are none the less deeply concerned that Britain risks being left behind in a two-speed Europe.

As one commented yesterday, Mrs Thatcher's vision of a Europe of "proud sovereign states" is fundamentally at odds with the direction for the Community being signposted by her partners.

# Computer TV channel will be announced by BSB

By Raymond Snoddy

EUROPE's first satellite TV channel devoted to news of the computer industry combined with specialised training programmes will be presented tomorrow.

The idea for the Computer Channel, aimed at computer and telecommunications companies all over Western Europe, was developed by the Business Television Corporation. The concept is now being purchased by BSB Datavision, the business communications subsidiary of British Satellite Broadcasting, the venture in which Pearson, owner of the Financial Times, has a significant stake.

From the end of June, the Computer Channel will begin broadcasting weekly analysis programmes on Thursday mornings with news and views from the computer industry all over the world. On Wednesdays, the channel will also broadcast specialist training programmes featuring experts on topics ranging from disaster recovery and computer security to networking and the future of integrated digital services.

The channel will be broadcast by the BSB satellite and will be carried on the movie channel before the film begins.

Mr Julian Costley, managing director of the Computer Channel and a former

executive at Reuters news agency, said: "The channel's purpose is to let more people get more training in a totally practical way. Now everyone from Milan or Manchester can have a 'tutor' with them at their desk."

The service, which will be launched live at the Which? Computer Show in Birmingham will use BSB reception equipment including aerials, the fax aerials.

For a basic £495 fee, which includes all equipment, subscribers will get the weekly analysis programme and at the same time have access to all five BSB TV channels.

The training programmes called Dos-

slers will be pay-by-view. Subscribers will be able to order individual programmes in advance for about £250. Only those who have ordered a programme will be able to receive it.

Subscribers will be encouraged to take such programmes and offer them to all staff needing them, building up a library of training material.

The programmes are being produced in association with the British Computer Association and joint television productions with the association are under evaluation. The editor of the Computer Channel is Mr Clive Coudwell, former editor of Which Computer?

## NEWS IN BRIEF

## Amstrad to launch phone kit

AMSTRAD, the UK electronics company, will tomorrow launch a combined telephone, facsimile and answering machine as part of its drive to return to financial health.

Mr Alan Sugar, Amstrad's chairman, said this year that he would introduce a new product every month to reverse the drop in his company's profits. Pre-tax profits fell by more than half to £76.6m last year.

The new machine will sell for £599. The company is also introducing a £399 facsimile machine.

## Doubt on Labour

ONLY one in three leading businessmen believes Labour is fit to run the economy, according to a poll in yesterday's Independent on Sunday. Out of 75 executives surveyed, just 36 per cent agreed that Labour would be competent. When asked if Labour could be trusted to control inflation, 91 per cent said the party could not.

## Service point

THE RANK Organisation has opened a £5.5m service station on the M4 motorway outside Cardiff.

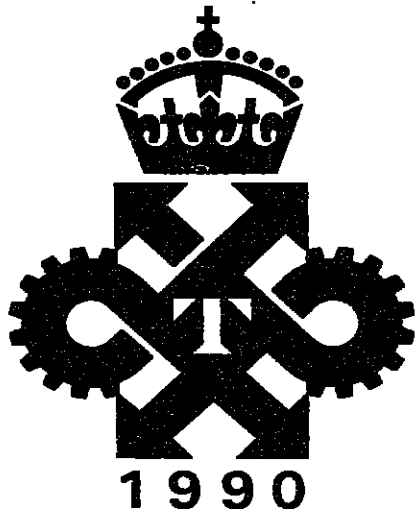
The service station, undertaken in conjunction with Esso at junction 33, is the only one between Apsal, on the English side of the Severn Bridge, and Sarn, outside Bridgford. It will create 100 full and part-time jobs. Rank is seeking planning permission for another service station on the M4 at Swansea, and a second on the A55 at Bangor in North Wales.

## Export plea

THE Government was yesterday urged to boost exports by cutting VAT on pet food. British products would be prime contenders to dominate the European market if VAT were removed, the Pet Food Manufacturers' Association said.

Mr Peter Lilley, the Treasury Minister in Brussels yesterday to discuss VAT with his European Community counterparts, was urged by the association to "end" tax discrimination against pet food. The association said the £2.4bn UK pet food market already accounted for 40 per cent of sales in the EC.

## HIGH TECHNOLOGY SHINES THROUGH



Smiths Industries Aerospace and Defence Systems is proud to receive the Queen's Award for Technological Achievement for its EIS (Engine Instrument System).

Smiths Industries Aerospace Group at Cheltenham has won another significant commercial aerospace contract, being selected by British Aerospace to supply the Light Emitting Diode (LED) Engine Instrument System (EIS) for the new Jetstream 41. The contract, with spares, will be worth over £22 million on up to 400 aircraft.

Similar equipment is currently fitted on the Boeing 737 - 300/400/500 series aircraft, the McDonnell Douglas MD80 series and the British Aerospace BAe 146. The equipment is fitted to over 260 aircraft and operated by some 54 airlines.

Also stand-by Engine Instrument Systems on the Boeing 757/767 have already been supplied for some 200 aircraft.

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## Tighter curbs sought on supply of reserves available to banks

By Rachel Johnson

THE BANK of England should curb its supply of liquidity to banks, which is fuelling inflation, the Institute for Economic Affairs said yesterday.

The IEA, an independent research trust, added that excessive lending to banks by the Bank was also contributing to credit growth and the rapid expansion of M0, the Treasury's chosen monetary indicator, which represents mainly notes and coins in circulation.

Today's money supply figures for March are expected to show growth in credit outstripping the Treasury's target limits for expansion.

Professor Gordon Pepper, an economist with the IEA, said British monetary policy had failed in its primary purpose, which was to control inflation. Inflation has risen from 3.5 per cent in February 1988 to 8.1 per cent in March this year.

Prof Pepper said: "More inflation is in the pipeline... and interest rates have a weak and indirect effect on money growth."

A cut in interest rates would be ineffective because it would lead to a decline in sterling and raise inflationary pressures. Banks were unconcerned by the prospect of higher interest rates because of the potential for higher profits.

Remedial action therefore required changes of domestic techniques of monetary control. To curb rising inflation, the Bank of England must enter a "binding contract" with the Treasury and Parliament to control the unlimited supply of reserves available to the

banking system, the report says.

Financial discipline was fundamental to the control of inflation. Stronger control of the money supply would imply a tight constraint on the rate of growth of the balance sheet of the banking sector.

Under the Pepper plan: ● The rate of growth of the Bank's balance sheet would be agreed with the Treasury, and reported to Parliament.

● Any big departures would be reported to the Government and the House of Commons Treasury select committee.

Money, Credit and Inflation, by Gordon Pepper, research monograph 44. IEA, 2 Lord North Street, London SW1 3LR. 25.95. Observer, Page 22; Lombard, Page 23

## Race law change is demanded

By Norma Cohen, Education Correspondent

THE COMMISSION For Racial Equality has asked the Education Secretary, Mr John MacGregor, to change the law so that white parents are free to select their child's school on the basis of race.

The move comes after Mr MacGregor refused to overturn a decision by Cleveland County Council allowing a white parent to transfer her daughter from a school with a large Pakistani population to a school that is almost exclusively white.

The parent, Ms Jenny Carney, made clear that she was seeking the transfer on racial grounds.

Mr MacGregor's move appears to sanction efforts by white parents in other districts to remove their children from schools with large non-white populations.

However, the Department of Education and Science said Mr MacGregor had made his decision after receiving legal advice that the Education Act of 1980, which grants parents permission to choose their children's schools, supersedes the Race Relations Act.

The spokesman noted that had Ms Carney cited a different reason for the transfer, or had cited none at all, her request would have been speedily and quietly granted.

## Allotment holders put paid to leisure complex

PLANS for a £15m leisure complex at Boldon, near Sunderland, Tyne & Wear, which would have created 700 jobs have been shelved because a dozen allotment holders on the proposed site have refused to be uprooted.

The complex would have included a 10-screen cinema, a bowling alley, two restaurants and a nightclub.

Growners on 25 allotments that fell within the site were offered new plots nearby, but a dozen refused to shift, so Labour-controlled South Tyne-side council refused planning permission for the development.

Mr Vincent Fitzpatrick, council leader, said: "The developers wanted to be in quickly, and the gardeners were concerned that the new sites be ready in time to get fertile for planting for the season."

"Because of these problems it was decided not to proceed with the scheme."

Mr Ken Charlton, a Tory councillor, said: "These jobs were being offered to us on a plate. To reject them out of hand is madness - an absolute scandal."

However, Mr John Gibson, chairman of the East View Allotment Holders Association, welcomed the news.

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# THE QUEEN'S AWARDS

## For Export and Technology



### Question marks over honours for industry

Alan Cane asks whether mere pats on the back encourage technological and managerial excellence

**F**ORTY-NINE companies this week will be proudly planning to screw plaques to their office walls to mark their winning a Queen's Award for Technology. Will the plaques do any more than make the office wall look a little more impressive?

The awards are an attempt to provide some public recognition for business accomplishments which, for reasons more to do with education than culture, are held in disdain.

But the award system, which celebrates its silver jubilee this year, is showing signs of age. It is failing to keep pace with changes in the character of industry.

Leading British companies now regard themselves as simple exporters from a UK base. They are attempting to become international companies with plants abroad or alliances with foreign partners.

Strong companies increasingly generate overseas earnings from their foreign operations, rather than by making products in the UK and shipping them abroad.

In the 1980s the British industrial base has become increasingly cosmopolitan as a result of sustained inward investment. In colour television and video recorders exports from Britain are entirely due to foreign-owned companies.

Are the export awards rewarding exports from Britain or British exports? Should the system reward companies for internationalising their production, competing in a range of markets rather than simply the value of their exports from the UK?

The same sort of questions can be asked about the technology awards. The standard of Britain's technological achievements can be measured by the output of scientists and engineers, the number of patents which British companies lodge or the amounts invested in research and

development. The awards are not meant to reward this sort of pure endeavour, but the commercial aspects of developing technologies. Increasingly a company's competitiveness does not rely on its pure technological excellence, but the quality of its management in harnessing technology to commercial ends. The awards office is clear that they are rewarding the ability to innovate and create profitable manufacturing opportunities. Yet, despite that the awards are still widely seen as rewarding clever inventions.

Far from making explicit the link between innovation, manufacturing and profitability, the awards perpet-

**There were 1,355 entries, the eighth highest number since the competition began**

uate the idea that technology is a sort of magic pill which companies can take to cure poor performance. It sustains the idea that technology and management can be examined in isolation.

So, far from correcting any British bias against the commercialisation of technology, the awards may actually be compounding the isolation of technology.

So what impact do the technology awards have and could they be redesigned to be more effective?

It seems that companies do value the awards, because they keep on applying for them. This year, there were 1,355 entries, the eighth highest number since the competition was launched in 1965.

The largest number of entries, 1,860, was recorded in 1978, but over the years the figures have remained relatively constant. Just over 1,000

companies - or more correctly industrial units, for more than one division of a company can submit an entry - apply annually for an award, usually in an approximate ratio of three exporters to one technologist.

This year was well up to the mark with 969 entries in the export category with 126 winners and 386 in technology with 49 winners.

The Queen's Awards office this year carried out its own survey of past winners and failed to find a company which reported that achieving an award had done anything other than good.

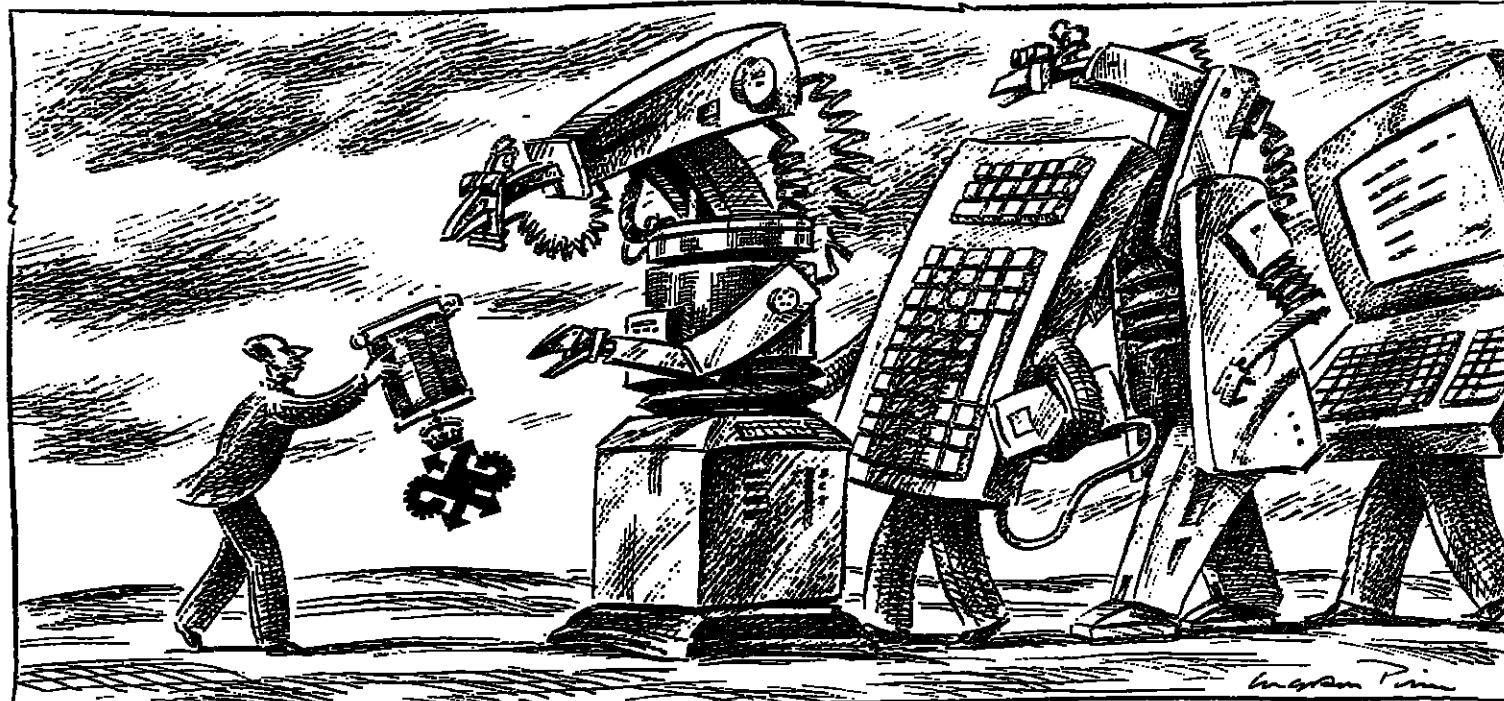
Among those companies which will be collecting wall plaques are well known names such as the research laboratories of the Wellcome Foundation, for developing a manufacturing process for the drug Retrovir, which is becoming a rallying point in the battle against AIDS. For these companies with prestigious reputations a Queen's Award will be a welcome pat on the back. But it is unlikely to improve significantly their commercial prospects.

However, there will also be a host of smaller companies which have a long way to go before they become household names, such as Gems of Cambridge, which developed a remarkable colour image processing system.

For these smaller companies, a Queen's Award is a distinction whose significance may go well beyond the statutory presentation ceremony and reception at Buckingham Palace. The awards provide them with national publicity and can become an important aspect of their marketing drive.

The official survey collected stories of companies whose businesses grew substantially, especially in their home market, in the wake of the blaze of publicity which follows an award.

The influence of the awards



abroad as a form of advertisement for the UK and its industrial products is more questionable.

In the Middle East and Japan, for example, the awards may often be regarded as a stamp of government approval, as a guarantee of quality. In the United States, however, the awards are unlikely to have so much cachet.

There is no doubt that an award can do much for the morale of the staff in a winning company. This is important in a country such as the UK which sets little store by industry and whose heroes are drawn from the worlds of sport and entertainment rather than the boardroom.

This year the Queen's Award office will increase its marketing effort, with a roadshow to publicise the awards.

So the system has its merits as a marketing and morale-raising exercise. But does it really contribute to improving the quality of UK technology?

The immediate and depressing comparison is with the Malcolm Baldrige National Quality Awards, established three years ago in the US to honour the late commerce

secretary in the Reagan administration, killed tragically in a rodeo accident.

US companies take the Baldrige awards seriously. Administered by the Commerce Department, they are funded to the tune of \$600,000 each year drawn from the interest on a \$10.4m fund created through donations from industry.

The impetus for the Baldrige awards was a concern, echoing the anxieties in the UK which led to the establishment of the Queen's Awards, that US industrial competitiveness was on the decline.

There are three categories of awards - for manufacturing industry, for service industry and for businesses with fewer than 500 employees.

**N**o service company has yet won the award; the five winners to date are Motorola, the semiconductor company, Westinghouse Commercial Nuclear Fuels Division, Globe Metallurgical, Millikan & Company and Xerox Business Products and Systems.

Winning companies have to show all-round excellence in quality man-

agement judged by a variety of criteria including leadership, information and analysis, planning, human resources, quality assurance and customer satisfaction.

Award officials estimate that competing companies undergo between 300 and 400 hours of evaluation. One hundred thousand companies have applied for a prospectus this year. The winner's only reward is extensive publicity. Winning companies have to share the secrets of their quality management with all comers.

The criteria for the Baldrige awards are being seen as the model of quality management throughout US industry. Motorola, for example, has warned 3,000 suppliers that they risk being dropped if they fail to try to meet Baldrige standards.

In the UK the recently instituted National Training Awards are also intended to have more impact on business performance. The awards are accompanied by case studies of how companies have improved their training and an export report on the quality of training in British companies. The training awards are being seen as measures of quality in training which could be used as a stan-

dard for other companies. It is designed to be used as a tool to help raise the performance of other companies. It judges past performance but its aim is to improve future performance.

By comparison, the Queen's Awards and Design Council Awards seem only official and well deserved pats on the back. The UK has a deserved reputation for amateurism in management which it is trying to redress.

A more professional approach to the UK's industrial honours system might go a long way to recognising the kind of role models which could be used to establish national standards of management excellence. There would be far fewer winners; but the competition would undoubtedly improve the breed.

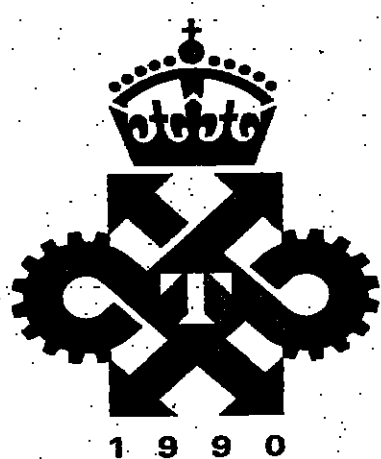
British managers have long been criticised for lacking the professionalism of their foreign counterparts. Much the same criticism could be made of the awards system. On balance it seems to reflect the character of British management - its strengths and weaknesses - rather than attempting to change it through establishing models of excellence.

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THE QUEENS AWARD FOR  
TECHNOLOGICAL ACHIEVEMENT 1990

Yarrow Shipbuilders Ltd  
for the development of  
the Type 23 Frigate



THE QUEENS AWARD FOR  
TECHNOLOGICAL ACHIEVEMENT 1990

GPT for the development of  
System X, the computer  
controlled switching system  
for telecommunications



THE QUEENS AWARD FOR  
EXPORT ACHIEVEMENT 1990

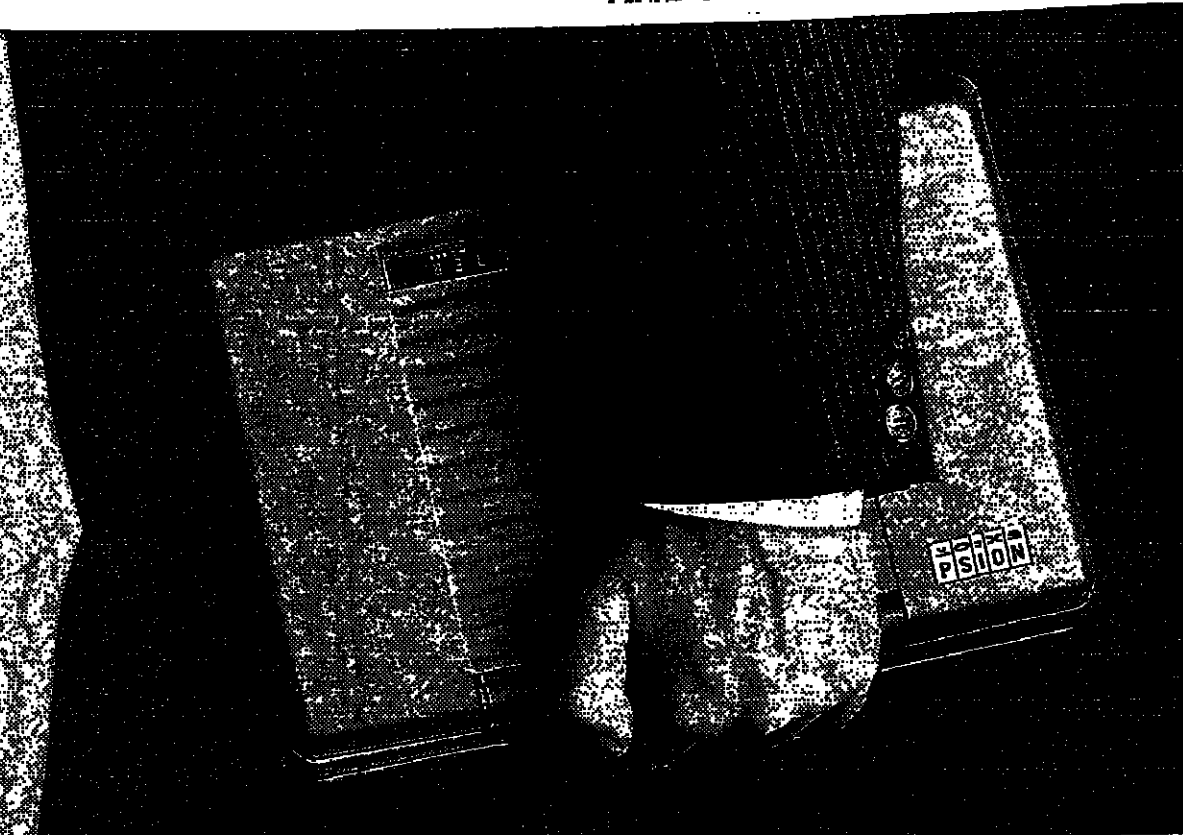
Salford Electrical Instruments Ltd  
for heated rear window aerial  
units, which replace  
conventional rod aerials

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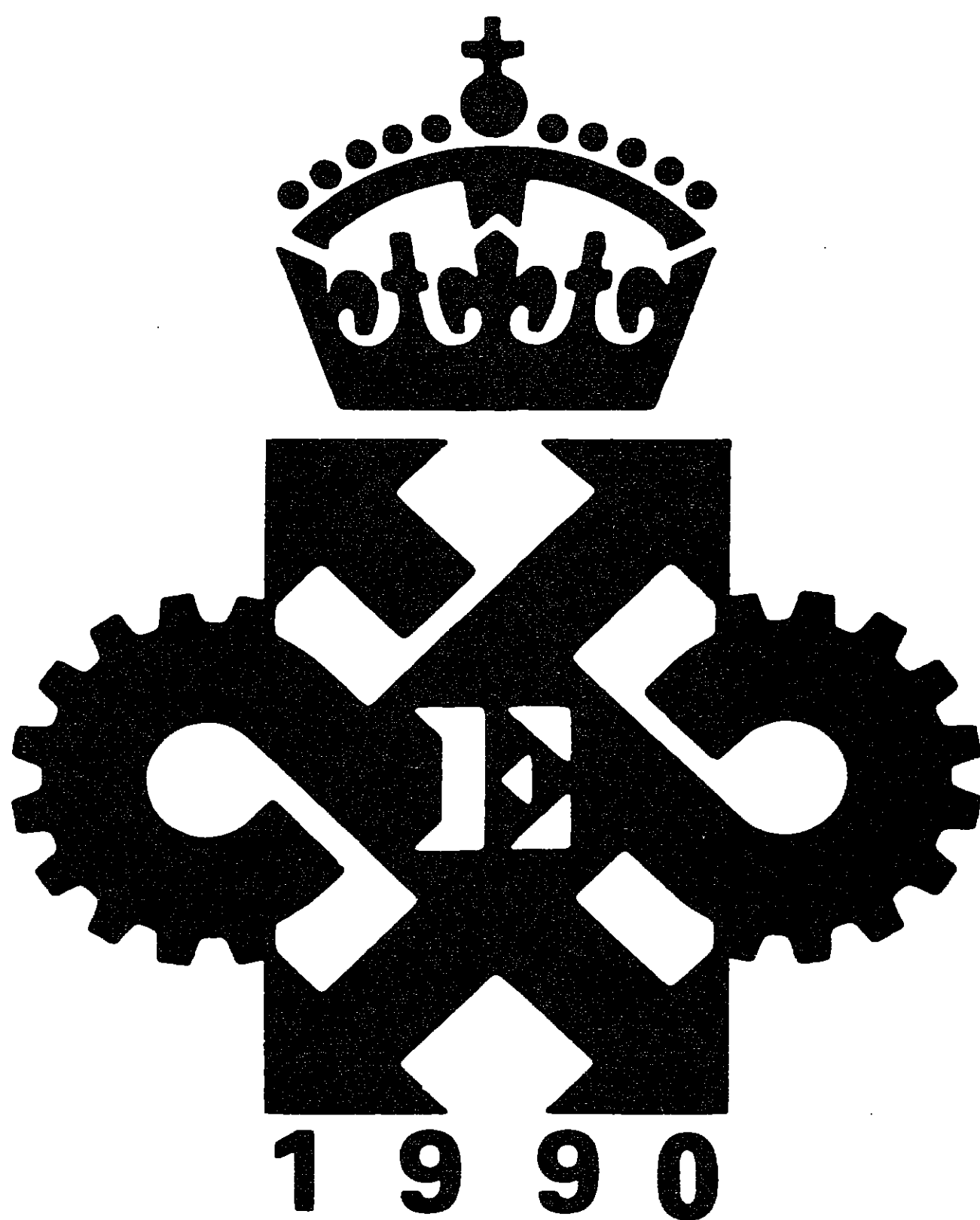
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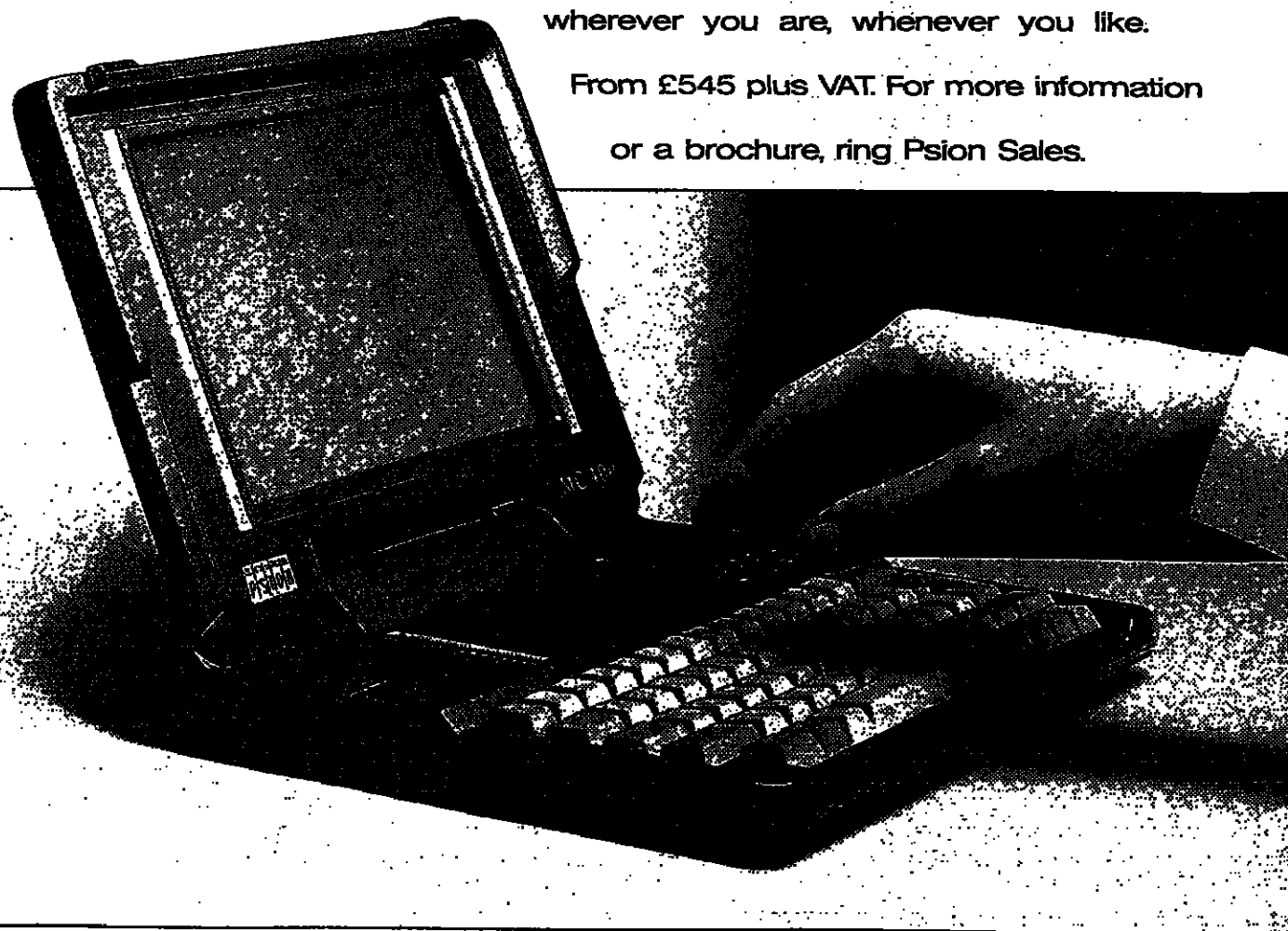
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# Repeated success for original winners

John Authers assesses the 126 recipients of awards for export achievement

VENISON would not appear to be a promising growth industry, but burgeoning foreign demand has helped the Reddishill Deer Farm in Auchtermuchty, Fife, to win a Queen's Award for Export Achievement.

With only four staff, Reddishill is the smallest company to win an export award this year. The largest is Trusthouse Forte, which employs more than 20,000, and there is also an award for Glaxo, the pharmaceuticals company.

The criteria used ensure a wide variety in the type and size of companies. Forty-six per cent of the winners have a workforce of fewer than 100, and only 19 have more than 1,000 employees. Most of the winners are manufacturers.

The prize list has a distinct green tinge, with a number of environment-friendly companies and awards went for the first time to lawyers and to insurers, although the financial services sector, which accounts for a large slice of export revenue, remains virtually unrepresented. It was noticeable, in the awards' silver jubilee year, that numerous winners were celebrating landmark anniversaries.

Seven winners of the first awards in 1965 repeated their success in 1990, although some had undergone changes in structure and name. As might be expected, ICI, GEC, Automotive Products and Land Rover, in various incarnations over the years, have all repeated their success 25 years on.

So has Rediffusion, which has increased in more than in name since it won an award as Rediffusion in 1965. The company is now the largest manufacturer of flight simulators in Europe, and claims 38 per cent of the available world market. Exports account for 69 per cent of annual turnover for the company, which has a workforce of about 3,000.

Smaller 1990 award-winners who were also successful in 1965 include Aquascutum, the quality clothing manufacturer which attributes its continued export success in large part to the French liking for *mode anglaise*. Ethicon, a Scottish subsidiary of Johnson & Johnson, which has exported surgical sutures to more than 100 countries, including Outer Mongolia, completes the list of companies still winning 25 years on.

Records for \$2bn. All CBS's licences had to be legally investigated.

North America traditionally provides most foreign business, but Japan and the Far East have produced a number of clients since 1974, when an office was opened in Hong Kong. The legal complexities concerning the creation of the single European market in 1992 have also boosted business, and one department is devoted to European law.

Mr David Winter, who has been active with the firm in the Soviet Union for 25 years, has already won an OBE for his services to exports in Eastern Europe. The firm opened an office in Budapest in 1987, and started its Moscow office earlier this month. With a Czechoslovakian lawyer among recent recruits to the London office, prospects for expanding business still look good.

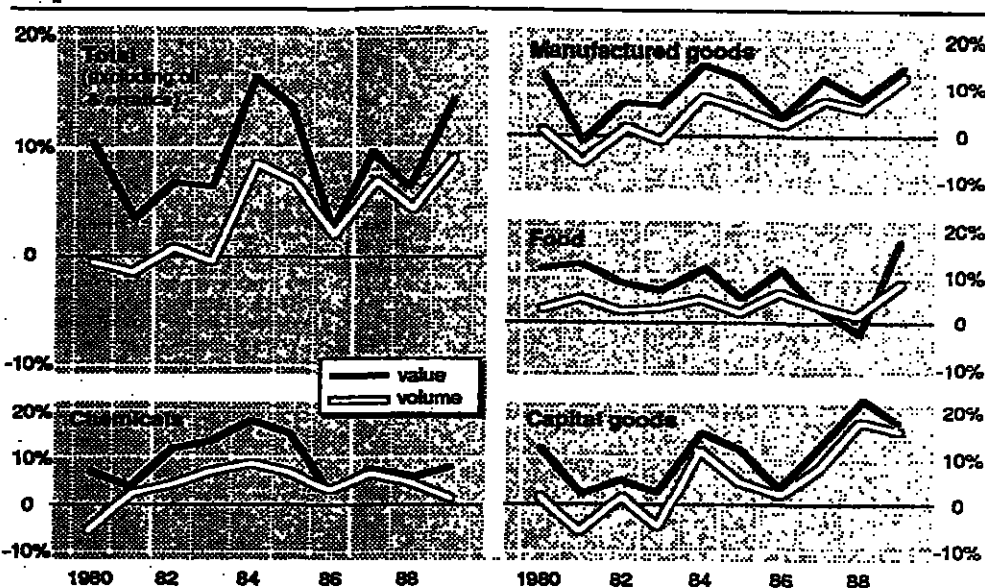
"Green" companies to win awards included History Craft, which makes giftware out of artificial elephant ivory. The company started by using its cold cast polyester technology to make the imitation brasses which allowed Brass Rubbing Centres to set up across Britain.

Now, exports account for 65 per cent of its annual £12m turnover, and the workforce has risen to 40. History Craft keeps a small workshop on Haris in the Outer Hebrides, and employ numerous freelance artists in the Colonsay area. The usefulness of reproduction ivory in restricting demand for the real thing and conserving the elephant is mentioned in History Craft publicity, but the emphasis is on quality craftsmanship. In the words of one employee, "We say what we can about the plight of the elephant, but we do not exploit it."

Body Shop, on the other hand, wears its environmentalist colours on its sleeve. The company announces prominently its refusal to use products tested on animals and regards its stance towards the environment as a key factor in its international appeal.

The company's exports are based on franchising, and all its products are sold in Body Shop premises. Franchisees are carefully vetted to ensure that they agree with the Body Shop ethos and are expected to organise campaigns to help the environment and community in their areas.

## Exports



sell well in Australia, Japan, and the EC. Exports now account for 6.8 per cent of turnover.

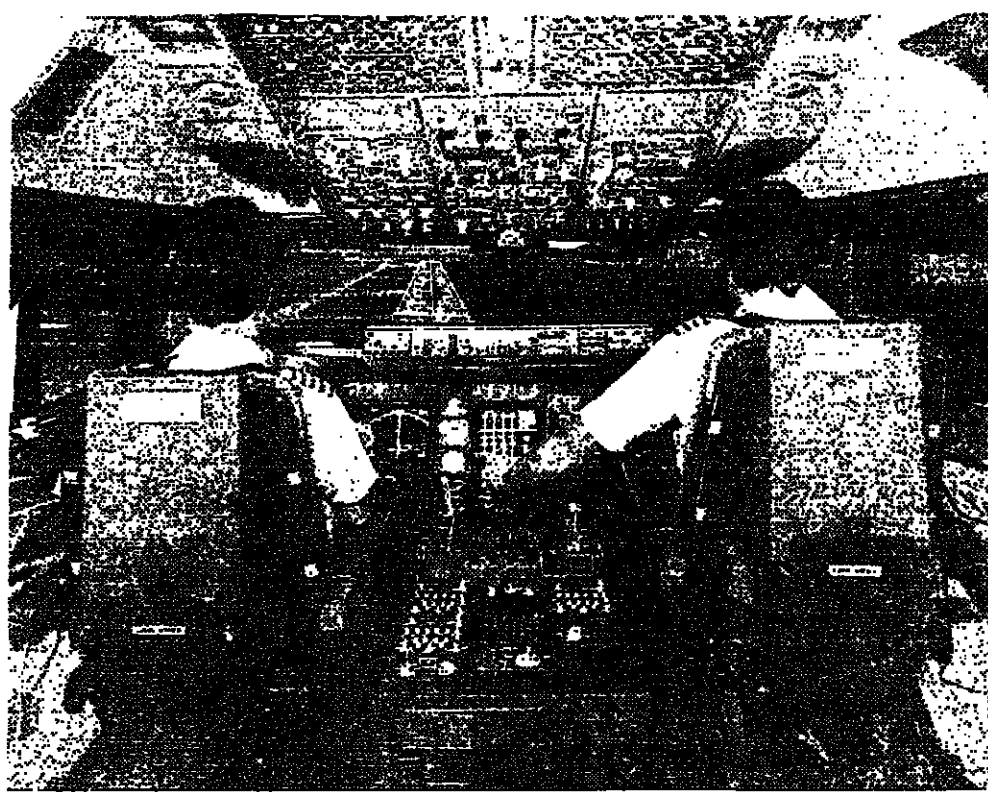
Sunset + Vine has made a speciality of televising large-scale outdoor events. Last week it worked as production associate on the satellite transmission of the Nelson Mandela

concert to an estimated world-wide audience of 1bn and its sponsored sports programme Gillette World Sport Special, is viewed in 85 countries.

Another indication of growing leisure time around the world comes from the awards for three different exporters of Scotch. Subsidiaries of Sea-

gram and Grand Metropolitan won, as did the independent family company of Douglas Laing. Japanese demand has been heavy for all three.

Mr Stewart Laing, a director of the company, said that presentation was the key to export success. Laings sell most of their exports through "duty



Rediffusion flight simulators land another award

free" outlets, and aim to make their products as appropriate as possible for gifts. For example, the McGibbons Special Golf range comes in ceramic flagons, in the shape of golf bags or golf drivers. Mr Laing said: "The Japanese like the taste of whisky and it has a certain snob appeal. They per-

ceive it as an ideal gift in a gift-giving society." The increase in scope for the leisure industry which has come with the changing lifestyles of the 1980s may also explain the successes for two hotel chains, Hilton International UK and Trusthouse Forte.

Hilton International UK won for attracting foreign visitors to the UK. Overseas guests now account for more than 30 per cent of its total hotel earnings. North America is the biggest market with 43 per cent of visitors, while Continental Europe and Japan account for 22 per cent and 15 per cent respectively.

# Now Whiskas success knows no boundaries.

Pedigree Petfoods are delighted and honoured to have won The Queen's Award for Export Achievement. Significantly increased export sales of Whiskas catfood over the last three years made this possible.

The Queen's Award for Export Achievement is a highly prestigious award of which we are all most proud.

Not wishing to rest on our laurels, we at Pedigree Petfoods



constantly strive to develop and improve our products. That's why we are now launching new Best Quality Ever Whiskas which is, quite simply, the best Whiskas yet.

We're proud of this development and determined to keep up the good work.

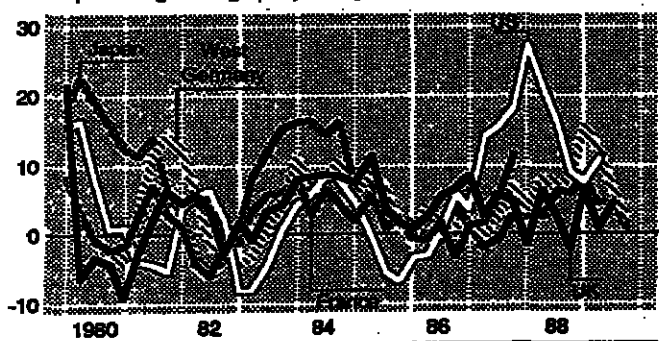
So who knows what awards await us with new Best

Quality Ever Whiskas?

1990

## Export volume

Annual percentage change on quarterly basis



The number of applicants increased this year from 801 to 989, the highest since 1968. Interest in the awards among the business community is still well below the peak in the late 1970s, when applications were in four figures. The 126 awards conferred are a record, despite this trend.

The importance of foreign investment to the Welsh economy was shown by the awards for Japanese electronics giants Sharp, which makes video recorders, microwave ovens and compact disc players at Wrexham, and Sony, responsible for the manufacture of colour television sets at Bridgend.

Twenty-seven export winners have foreign parents, including Minnesota Mining & Manufacturing and Kodak. Three colleges won awards, following a precedent set by Reading University in 1969. The London School of Economics and Political Science, which at one time had a reputation for exporting revolution, won thanks to its success in attracting foreign students.

In 1948-49, only 588 foreign students attended the LSE, compared with 3,223 British students. Last year 2,269 foreigners took courses, almost accounting for half the student body. Its old boy network is stronger than most, and includes 23 prime ministers or presidents, and 41 governors of central banks. Imperial College of Science, Technology and Medicine, and the Oxford-based College of Petroleum Studies, which provides specialist courses to clients from more than 90 countries, also won.

Service industries remain under-represented, but the London lawyers Baker & McKenzie have taken an award for a legal partnership. The London office, which won the award, has 35 partners, but the practice has 478 partners in 50 offices worldwide.

Bakers specialises in international commercial law, and its London office benefits strategically from being between Tokyo and New York time zones. One of its biggest deals to date was the November 1987 takeover by Sony of CBS

Recent examples include a clean-up campaign on Antigua, where islanders were vociferously encouraged to remove litter. The government eventually joined in with the campaign. The New Zealand outlet has run a campaign to save the endangered Hector's dolphin, and the Dutch Body Shop is running a recycling campaign.

Exports accounted for 28 per cent of Body Shop's turnover in 1989, compared with 20 per cent in 1986. In this three-year period, exports increased by 521 per cent, and the company now has 108 franchisees worldwide.

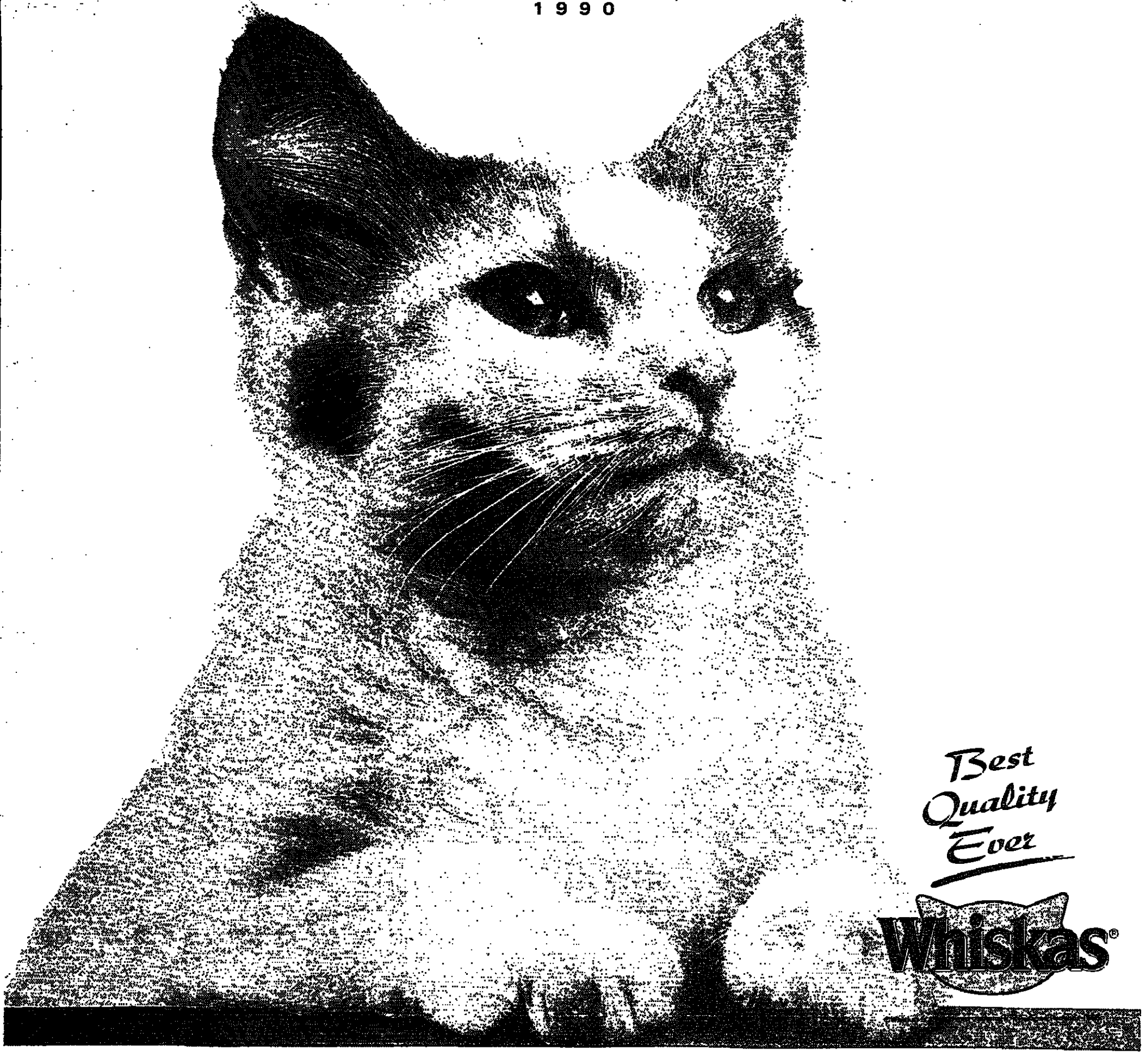
Body Shop was not the only icon of the last decade to win an award in 1990. Serif Cowells, the British makers of Trivial Pursuit, won, ironically, at a point when demand for the game seemed to be petering out and profits were halved.

Pision, which makes the Pision organiser, an electronic equivalent of Filofax, also picked up an award. Like several other winners, Pision can claim to have done its bit for the wave of democratisation in Eastern Europe - Pision technology was used to count the votes in the recent Hungarian elections. The government used 450 of its products to cross-check discrepancies.

In the fast diversifying television industry, awards went to LWT, and to the pioneering independent production company Sunset + Vine. LWT's chief export products are reassuringly consistent in a transient medium - Upstairs, Downstairs brought in the greatest revenue from abroad, followed by The Professionals.

The quintessentially English Upstairs, Downstairs has now been dubbed into the local languages and broadcast in more than 100 countries, including Sri Lanka, Bahrain, and Zaire. More recent titles which might hope to match its record include The Charmer, Dempsey & Makepeace, and Wish Me Luck.

The US, where public broadcast systems are reliable customers, provides LWT's biggest market, and programmes also



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## THE QUEEN'S AWARDS 1990

## A green hue brings benefits

Della Bradshaw analyses the awards for technological achievement

THESE days almost every industrial company takes the question of pollution and the environment seriously. But this year's Queen's Awards for Technology are dominated by companies who are now reaping the benefits of going "green" before their time.

They include a manufacturer of an energy-efficient diesel engine for cars, a chemical-maker which has invested in potations to clean up the water supply and a power station manufacturer which has reduced the pollutants spewed into the atmosphere during the energy-making process.

But a company which perhaps best demonstrates the technological trials and tribulations of "going green" is an aluminium reprocessing company from Nottingham, J McIntyre (Notts).

The company's tale goes back to the late 1970s when chairman Michael Pownall began the search for aluminium recycling equipment to replace the ageing gear already in use. Over a seven-year period he scoured the world, including Japan, where the most modern equipment was reputed to be found.

But none took his fancy, and so in 1984 he concluded that his only option was to build the plant himself.

Even then pollution was a prime concern for McIntyre, says Mr Pownall. "As early as 1984, when we started laying down the concept, we decided that the thing had to be environmentally friendly. That was at the top of our list."

To do that the company decided to design a recycling furnace that was sealed, and so reduced air pollution. To prevent any explosion wrecking the machine the doors had to be designed as ventilators, so that pressure was released.

But for a company that was used to buying in equipment, building a monster recycling plant - one machine now replaces 16 older production units - was not easy. Mr Pownall opted wherever possible to buy in component parts from established international suppliers, so that he could build the equipment himself on site. "We hadn't really the confidence to do everything ourselves the first time round. I wish now we had," he says.

However, even the first time round some equipment had to be specially made. The casing had to be made in a shipyard - it was the only place experienced in producing such enormous metal structures.

Mr Pownall says he was scared once this Frankenstein of a machine began to take shape, and says there were technical difficulties for the first 12 months while the company mastered how best to exploit the recycling equipment.

But the aim of the project, to build a machine that could recycle the most abused aluminium - covered in paint from soft drink cans, or plastics from discarded aluminium window frames - was achieved. And now McIntyre has set up a subsidiary company, Copernall, to sell its expertise.

These days it is the Japanese that are visiting the McIntyre plant. And Mr Pownall has sold equipment to some of the world's most prestigious aluminium recycling companies.

The largest number of "green" technology awards to be given to one sector are to the chemical industry. ICI scooped an award for a dye which turns polyester red by using only a fraction of the colouring normally needed. Its Electrochemical Technology Business has also been recognised for its process to produce chlorine without using mercury, so minimising environmental risk.

But a less well-known chemical company, Allied Colloids, of Bradford, has also won two technology awards for substances which help reduce environmental pollution.

The first is a chemical process used to prevent fibres and added chemicals from washing away with the water in commercial paper production. Allied Colloid's additive, a water-soluble polymer called Hydrocol, increases the amount of fibre and pigments held in the paper by sticking the particles together and making them bigger, so less likely to be washed through the filter mesh.

The second chemical is incorporated in a treatment which behaves in a similar manner, but is used to stick tiny particles of clay, slate or other materials together. The chemicals can therefore be used to clean up water supplies in mining or sewage works.

Another industry under pressure to ensure that its products emit fewer nasty chemicals or gases into the environment is the car industry. That is one reason why the Perkins Engine Group designed the Prima direct injection diesel engine which is now in use in Montego and Maestro cars.

The engine, which the manufacturers claim reduces fuel consumption by 40 per cent, works by burning the fuel and air mix in the cylinder, rather

R&D performed in each sector according to source of finance, 1987 (£m)						
Sectors providing the funds	Sectors carrying out the work					
	Government	Higher Education	Industry	Other	Total	Overseas
Government	1197.8	1072.5	1228.9	156.0	3655.2	227.6
Higher education		55.0			55.0	
Industry	153.4	73.5	4323.9	146.0	4696.8	854.6
Overseas	34.0	38.4	784.2	8.0	864.6	
Other	40.6	100.1		40.0	180.7	
TOTAL	1425.8	1339.5	6337.8	350.0	9452.3	

Source: CSO, Cabinet Office

## Source of funds for UK R&amp;D

1987 total £9.45bn

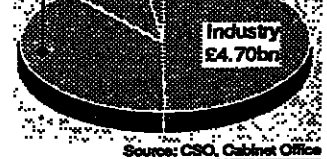
Government £3.65bn

Overseas £0.86bn

Others £2.45bn

Industry £4.70bn

Source: CSO, Cabinet Office



than the combustion chamber, as is done with the previous indirect injection systems.

The Clinical Reagents Division of Amersham International is also pointing to the "green" credentials of its development of an integrated set of medical instruments which diagnose disease using light instead of radio-activity. The central technology, enhanced chemical luminescence, as it is called, was developed by the Wolfson Research Laboratories at the University of Birmingham.

The Amerlite diagnostic system is particularly good at spotting hormonal imbalances in blood, and so can be used in fertility testing or diagnosing illnesses such as hepatitis or thyroid problems.

The good news is that eight out of the 49 technology awards have fashionable "green" credentials. But what is unnerving, in this era of glasnost, is the large grouping of defence contractors on the list. This is hardly surprising, because in 1987 more than 45 per cent of the UK govern-

ment's research and development expenditure was in defence, according to the OECD - compared to 35 per cent in France and less than 10 per cent in West Germany.

Glass-maker Pilkington, for example, has won the award for a head-up display, as it is called, in fighter aircraft. The display is a sheet of glass suspended between the windshield and the pilot, on to which information - such as how much fuel or how many bombs are left - is displayed.

The technique developed by Pilkington, which is in use with the US Air Force's Falcon fighters, uses holography to make the words or numbers seem bigger than they are. This means that more data can be squashed on to the screen and still read by the pilot.

Glasgow-based Yarrow Shipbuilders has won its award for the Type 23 Frigate, and Dowty Maritime Ocean Systems for a thermal printer - similar to a facsimile machine - which is used mainly in defence applications. The printer can be linked to underwater sonar equipment to plot out the movements of submarines in anti-submarine warfare.

Lucas Aerospace, Smiths Industries Aerospace and Defence Systems and the combination of Rolls-Royce and the Ministry of Defence's Royal Aerospace Establishment have all made breakthroughs in aeroplane design - in the last case for reducing the noise of aircraft engines. The developments won each of them the Queen's Award for Technology.

Although technology is often equated with computers this is an area where many UK manufacturers are finding it increas-

ingly hard to shine. Computer maker ICL, however, has won the award for its supermarket checkout system, which is familiar to many a Sainsbury shopper. And Gems, of Cambridge, has also been recognised for its high resolution image processing system, called Gemsys.

Two software companies, Micro Focus, of Newbury, and Mineral Industries Computing - which has written software for the mining industry - have also claimed awards.

One area of electronics where UK manufacturers continue to be among world leaders is optical systems, and that has been reflected in this year's awards. STC Submarine Systems and British Telecom's research laboratories are well-known for their developments in the field, but Lumonics, of Rugby has also won an award for its industrial lasers.

No industrial technology awards would be complete without a clutch of medical developments. Stealing the limelight this year is Chas A Blatchford, from Basingstoke, for the development of the Endolite artificial limb using carbon fibre composites. Amputees, says Blatchford's finance director Tony Rainbird, can lead a relatively active life if fitted with the artificial leg - some have even climbed mountains or mastered ice-skating. The company is now hoping to sell the artificial limb in the USSR, where, Mr Rainbird reports, there has been particular interest.

## Source of funds for Industrial R&amp;D

1988 total £5.96bn

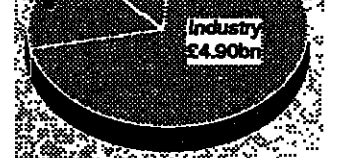
Government £1.13bn

Overseas £0.86bn

Others £2.13bn

Industry £4.90bn

Source: CSO



## R&amp;D expenditure relative to GDP, 1987

	R&D expenditure		Government-funded R&D		
	Total R&D %	Business R&D %	Total %	Defence %	Civil %
UK	2.3	1.5	1.1	0.5	0.6
France	2.3	1.4	1.4	0.5	0.9
West Germany	2.8	2.1	1.1	0.1	1.0
Italy	1.3	0.8	0.8	0.1	0.7
Japan	2.9	1.9	0.6	0.0	0.6
US	2.7	1.9	1.3	0.9	0.4

Source: OECD

## Source of funds for Industrial R&amp;D, 1978-88 (£m)

Funds for Industry's R&D	1978	1981	1983	1985	1986	1987	1988
Government funds	679.4	1197.2	1257.6	1175.5	1391.8	1228.1	1133.4
Overseas funds	155.2	337.3	282.0	569.2	727.0	734.2	625.7
Other, mainly own funds*	1459.7	2324.0	2622.5	3377.1	3831.9	4320.0	4897.7
Total	2294.3	3762.5	4162.3	5121.8	5950.7	6333.3	6656.8

\* Revised. \* From 1988 the figures include the UKAEA

Source: CSO

## THE MISSION

"Stronger commitment to people.

Greater dedication to product quality and value.

A more vigorous quest for new opportunities."

Sharp Mission Statement

## THE RECOGNITION

1989 was a record year for the Sharp plant in Wrexham. Exports reached an award-winning £69 million, sales boomed and the workforce grew to 1,200 people.

And there's more good news ahead, as work gets



1990

SHARP

Sharp Manufacturing Co of UK, Sharp House, Wrexham, Clwyd LL12 0PG.

underway in Oxford on establishing Sharp's first-ever technological research laboratory outside Japan. As you can see, we have a mission statement we not only believe in, but act on.

JG

John Guest

John Guest Ltd, the world's leading manufacturer of push-in tube couplings for the automotive, engineering, drinks dispensing and water industries is proud to receive the Queen's Award for Export.

We would like to thank our customers, both UK and overseas, for their continued support and confidence in our products. We would also like to thank our employees whose hard work and dedication to quality has contributed so much to our success.

Super Speedfit® push-in tube couplings are available in a wide range of sizes and materials to meet many diverse applications.

John Guest Ltd  
Horton Road, West Drayton  
Middlesex, England, UB7 8JL  
Tel: 0895-449233 Fax: 0895-420321



1990





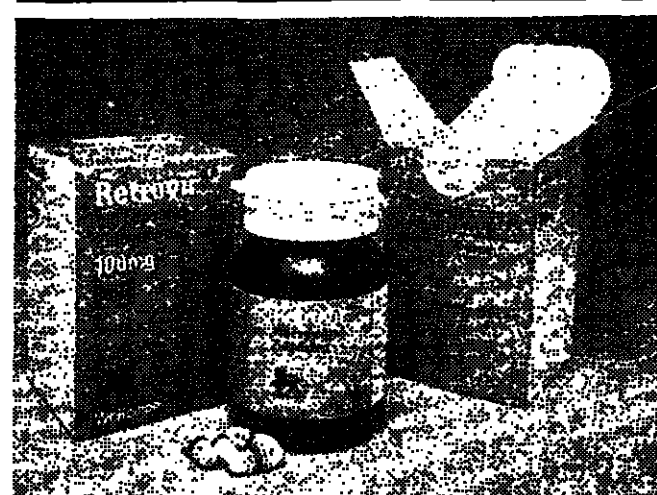
Sony UK's Bridgend Plant, home of the Trinitron, has just won the coveted Queen's Award for Export Achievement. Just as it did in 1980 and in 1987. It seems a Sony Trinitron guarantees a good reception, year in, year out.

**SONY.**  
WHY COMPROMISE?



## THE QUEEN'S AWARDS FOR TECHNOLOGICAL ACHIEVEMENT 1990

COMPANY	LOCATION	NAME OF PRODUCT OR DEVELOPMENT	COMPANY	LOCATION	NAME OF PRODUCT OR DEVELOPMENT
<b>A</b>			<b>R</b>		
Allied Colloids - Paper Division	Bradford, West Yorkshire	High quality paper and board	Renishaw Metrology	Wootton-under-Edge, Gloucestershire	Motorised probe heads incorporating patented kinematic location system
Allied Colloids - Research Department	Bradford, West Yorkshire	Process for production of vinylamine esters	Rolls-Royce - Design Engineering Group	London, SW1	Aircraft engine noise reduction technology (jointly with the Propulsion Department of the Royal Aerospace Establishment)
Amersham International - Clinical Reagents Division	Little Chalfont, Buckinghamshire	Amerlite laboratory diagnostic system (jointly with the Wolfson Research Laboratories of the Department of Clinical Medicine of the University of Birmingham)	Royal Aerospace Establishment - Propulsion department	Farnborough, Hampshire	Aircraft engine noise reduction technology (jointly with the Design Engineering Group of Rolls-Royce)
Applied Materials - Implant Division	Horsham, West Sussex	Implantation equipment for semiconductor manufacture	Royal Signals and Radar Establishment - Electronic Materials Division	Malvern, Worcestershire	Metal organic precursors for semiconductor materials (jointly with Epichem)
Applied Video Systems	Chessington, Surrey	Conversion of TV signals between incompatible TV systems	<b>S</b>		
<b>B</b>			Serico Group	Broadstairs, Kent	Photo stencil emulsions for screen printing
Bonac Machine	Gateshead, Tyne and Wear	High speed electronic jacquard for broadcloth weaving	Smiths Industries Aerospace and Defence Systems - Flight Deck Display Systems Unit of the Cheltenham Division	Cheltenham, Gloucestershire	Advanced light-emitting diode display systems for commercial jet aircraft
British Telecom - Main Optical Networks Division	Ipswich, Suffolk	Optical receivers for undersea cable applications	STC Submarine Systems	Greenwich, London, SE10	NL 420 mbit/s submarine cable systems
Blatchford Sons, Chas A.	Basingstoke, Hampshire	Lightweight lower extremity artificial limbs	STC Technology	Harlow, Essex	Bipolar and complementary metal oxide semiconductor devices in the same integrated circuit
<b>C</b>			Steel Castings Research & Trade Association	Sheffield, South Yorkshire	The Replicast process for producing high-quality castings (jointly with Glencast)
Croda Application Chemicals	Goole, North Humberside	Dicrol CPS rolling oil	<b>U</b>		
<b>D</b>			University of Birmingham - Wolfson Research Laboratories of the Department of Clinical Medicine	Birmingham, West Midlands	Amerlite laboratory diagnostic system (jointly with the Clinical Reagents Division of Amersham International)
Dowty Maritime Ocean Systems	Weymouth, Dorset	Thermal linescan recorders	<b>V</b>		
<b>E</b>			VG Elemental	Winsted, Cheshire	Inductively coupled plasma mass spectrometry system (jointly with the NERC ICP-MS Facility)
Elcometer Instruments	Droylsden, Manchester	Microprocessor for controlling thickness gauges	<b>W</b>		
EM Electronics	Brookhurst, Hampshire	Ultra low-level DC voltage measurement	Wellcome Foundation - Wellcome Research Laboratories	Beckenham, Kent	Retrovir for the treatment of HIV infection
Epichem	Wirral, Merseyside	Metal organic precursors for semiconductor materials (jointly with the Electronic Materials Division of The Royal Signals and Radar Establishment)	<b>Y</b>		
<b>G</b>			Yarrow Shipbuilders	Scotstoun, Glasgow	Type 23 frigates
Gems of Cambridge	Cambridge, Cambridgeshire	Gemsys image processing system			
Glaxo Group Research	Greenford, Middlesex	Ceftazidime - an antibiotic			
Glencast	Laven, Fife	The Replicast process of producing high-quality castings (jointly with Steel Castings Research and Trade Association)			
GPT Telecommunications Systems Group (Switching Networks)	Liverpool, Merseyside	System X telecommunication switching system			
Gullick Dobson - Technical Department	Wigan, Greater Manchester	Automated mine roof support system			
<b>I</b>					
ICI Cellmark Diagnostics	Abingdon, Oxfordshire	DNA fingerprinting (jointly with the Lister Institute of Preventive Medicine)			
ICI Chemicals & Polymers - Electrochemical Technology Business	Runcorn, Cheshire	Membrane electrolyser for large-scale production of chemicals			
ICI Colours & Fine Chemicals	Blackley, Manchester	Benzodifuranone-based dyes			
ICI Retail Systems	Bracknell, Berkshire	Point of sale checkout scanning system			
INMOS - Product Development Division	Almondsbury, Bristol	Design of parallel microprocessors (jointly with Oxford University Computing Laboratory)			
<b>L</b>					
Lister Institute of Preventive Medicine	Stanmore, Middlesex	DNA fingerprinting (jointly with ICI Cellmark Diagnostics)			
Lucas Aerospace - Actuation Division	Wolverhampton, West Midlands	Geared rotary actuators for aircraft flap systems			
Lumonics	Rugby, Warwickshire	JK 700 Series industrial laser system			
<b>M</b>					
J. McIntyre (Non Ferrous)	Dunkirk, Nottingham	Energy-saving unit for recycling aluminium scrap and waste			
Micro Focus Group	Newbury, Berks	COBOL2 work bench			
Mineral Industries Computing	London W1	Software for mineral deposit evaluation			
<b>N</b>					
NEI International Combustion	Derby, Derbyshire	Low NOx combustion in power station boilers			
NERC ICP-MS Facility	Egham, Surrey	Inductively coupled plasma mass spectrometry system (jointly with VG Elemental)			
<b>O</b>					
Oxford University Computing Laboratory	Oxford, Oxfordshire	Design of parallel microprocessors (jointly with the Product Development Division of INMOS)			
<b>P</b>					
Pearpoint	Bordon, Hampshire	Solid state mono and colour CCD cameras			
Perkins Engines Group	Peterborough, Cambridgeshire	Prima direct injection high speed diesel engine for cars and vans			
Philips Components Ltd Washington	Washington, Tyne and Wear	Advanced manufacturing techniques for TV deflection units			
Pilkington PE	St Asaph, Clwyd	Production process for fabrication of holographic optical elements			



### Treatment for AIDS

THE time it takes to get a new drug on to hospital shelves is notoriously protracted. But with the human immunodeficiency virus (HIV) spreading rapidly in the 1980s, there was an added urgency in the search to find a treatment for AIDS.

For that reason the Wellcome Foundation's timely introduction of Retrovir in

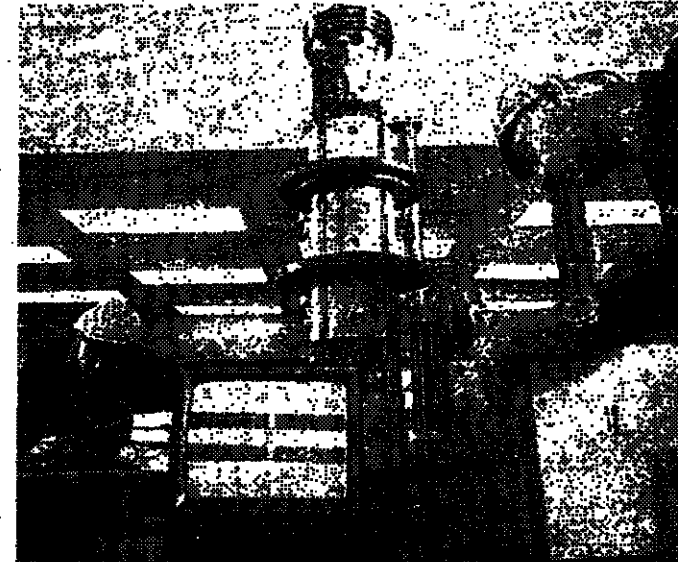
April 1987 has received the Queen's Award for Technology. The award is for the complex manufacturing process which enabled the company to produce the drug in marketable quantities. Zidovudine, the chemical formulation from which the branded drug Retrovir is derived, was studied in the early 1980s as an anti-cancer agent. But Wellcome decided it could prove effective in treating severe manifestations of the HIV infection. Retrovir earned Wellcome £134m in the year ending August 1989.

### Underwater advance

THERE are few technological advances which become famous for lying on the bottom of the Atlantic Ocean. But such is the case with the optical fibre submarine cable developed by STC Submarine Systems, of London.

The cable and its associated

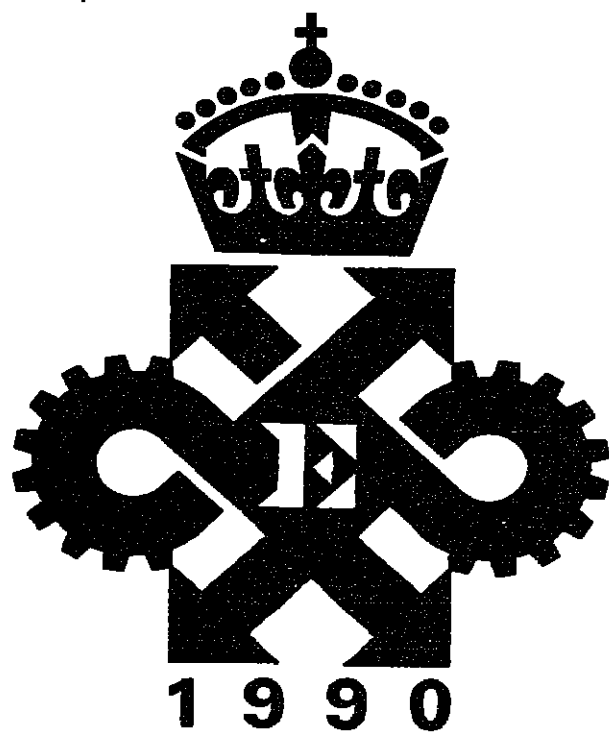
electronics (pictured below) carry voice, data, facsimile and video pictures between the UK and the US. Similar links are under construction between Hong Kong and Taiwan, the British Isles and Spain and Japan and the US. STC began developing the system in 1986. The NL4 420 Mbit/s system, which has won STC the Queen's Award for Technology, can transmit 5,760 telephone conversations down just one pair of optical fibres.



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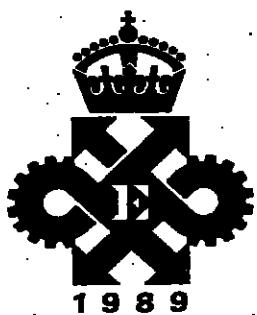
Premier Biscuits, PO Box 171, Franklin House, Birmingham, B30 2NA  
Telephone: 021 459 1199



## THE QUEEN'S AWARDS FOR EXPORT ACHIEVEMENT 1990

COMPANY	LOCATION	NATURE OF GOODS AND SERVICES EXPORTED	COMPANY	LOCATION	NATURE OF GOODS AND SERVICES EXPORTED
<b>A</b>			<b>L</b>		
Advisory Services Holdings	London W1	Medical consultancy services	LWT (Holdings)	London SE1	Sale of television programme rights
AgriSense-BCS	Pontypridd, Mid Glamorgan	Insect pest monitoring & control systems			
Alpro-Rite	Bridgend, Mid Glamorgan	Photomask & design services for the semiconductor industry			
Apollo Fire Detectors	Havant, Hampshire	Fire detectors			
Aquascutum Group	Burnley, Lancashire	Men's & women's clothing & accessories			
Armstrong	Leamington Spa, Warwickshire	Melamine edging material			
Automotive Products - Industrial Clutch Division		Industrial power take-off clutches			
<b>B</b>			<b>M</b>		
Baker & McKenzie	London WC2	Legal services	MF Industrial	Stredford, Greater Manchester	Trucks & industrial loaders
Barnes & Nathans	London NW1	Film & theatrical costumes	Mars GB - Pedigree Petfood Division	Malton Mowbray, Leicestershire	Petfood
Barnes	Bridgend, Mid Glamorgan	Orthopaedic implants & instruments	McLellan & Partners	West Byfleet, Surrey	Consulting engineers & project managers
The Body Shop International	Gateshead, Tyne & Wear	Skin & hair care products	Marobact	Cleethorpe, W Yorkshire	Pipeline protection materials
Bones Machine Co	Clun, Shropshire	Weaving machinery & allied equipment	Monteaurt-Short	Poole, Dorset	Domestic loudspeakers & amplifiers
Bondar Holdings (UK)	Newcastle-under-Lyme, Staffordshire	Spare parts & components for vehicles	Morning foods	Crows, Cheshire	Osmel
British Ceramic Services Co	Ayr, Ayrshire	Clins	MTM	Yarm, Cleveland	Speciality chemicals
British Raplin	Wilton, Cambridgeshire	Woven textiles	Murray Allan of Inverlathen	Inverlathen, Peeblesshire	Cashmere & pure wool knitwear
British Sides	Wilton, Cambridgeshire	Cellulose & polypropylene films			
British Steel Stainless	Sheffield, S Yorkshire	Stainless steel			
Butterfly Brick	Ripley, Derbyshire	Clay facing bricks/clay pavers			
<b>C</b>			<b>N</b>		
C&S Antennas	Rochester, Kent	Antenna systems	Nave Electronics International	Melbourn, Hertfordshire	Sound mixing consoles & systems
CB Brook & Co	Bradford, West Yorkshire	Bunting & woven woolen abba cloth	Notbrook Laboratories	Nowry, Co Down	Veterinary pharmaceuticals
Calsonic Automotive	Prashville, Ayrshire	Overhaul & refurbishment of jet engines			
Cambridge Research Biochemicals	Cambridge, Cambridgeshire	Biotechnology			
Chaucer Foods	Ashford, Kent	Croissants			
Chivas Brothers	Canterbury, Kent	Whisky, gin & rum			
College of Petroleum Studies	Oxford, Oxfordshire	Management & business courses			
Courtside Speciality Plastics	Derby, Derbyshire	Cellulose acetate film moulding compound & sheet			
Crabtree & Gatehead	Gateshead, Tyne & Wear	Metal decorating & coating equipment for the can-making industry			
Crocket & Jones	Northampton, Northamptonshire	Men's footwear			
Croole	Halifax, Yorkshire	Short staple carding machines			
Crysalis	Hilperholme, Halifax, Yorkshire	Domestic tumble-dryers			
<b>D</b>					
Dalsing	Cambridge, Cambridgeshire	Crystal growth equipment			
Dent Instrumentation	Glasgow, Scotland	In-process thermal monitoring system			
Douglas Laid & Co	Glasgow, Scotland	Electronic vibration detectors			
Dunhill Scotch Whisky Sales	London NW1	Whisky			
Dunkirk Metals	Nottingham, Nottinghamshire	Scotch whisky & crystal whisky decanters			
<b>E</b>					
Edgewise Blinds	Glasgow, Scotland	Aluminium extrusions			
Edgeworth Electronics	Darlington, Co Durham	Window blind systems			
Electrolux - Floor Care Division	Luton, Bedfordshire	Audio amplifiers & loudspeakers			
Elkon	Edinburgh, Scotland	Vacuum cleaners			
<b>F</b>					
Fairbank Brerley	Bingley, West Yorkshire	Surgical sutures & ligatures			
Fairley Industrial Ceramics	Stone, Staffordshire	Spring-making machinery & gas-fired rapid heating furnaces			
Fitterm International	Bridgnorth, Shropshire	Ceramic water filters			
<b>G</b>					
Glass Holdings	London W1	Oil mist filtration equipment for machine tools			
Gloster Leisure Furniture	Bristol, Avon	Edical pharmaceuticals			
Glock Engineering Co	London SE15	Teak garden furniture			
<b>H</b>					
Hazleton Laboratories Europe	Harrogate, N Yorkshire	Clock mechanisms			
Hepco Slide Systems	Greenford, Middlesex	Contract life science research			
Heraeus Mobilight	Cambridge, Cambridgeshire	Linear bearings & slideways for machinery			
History Craft	Gloucester, Gloucestershire	Laser light sources			
HMB Subwork	Great Yarmouth, Norfolk	Reproduction ivory giftware from resin			
Hunt & Moscrop	Middleton, Manchester	Remote operated underwater vehicles & services to the oil industry			
<b>I</b>					
ICI Agrochemicals	Farnham, Surrey	Paper finishing machinery			
Imperial College of Science, Technology & Medicine	London SW7	Herbicides, fungicides & pesticides			
IOP Publishing	Bristol, Avon	Teaching & research			
<b>J</b>					
John Brown Engineering	Clydebank, Dunbartonshire	Scientific books & journals			
John Guest	West Droyton, Middlesex	Gas turbines			
<b>K</b>					
Kodak	Hemel Hempstead, Hertfordshire	Push-in tube fittings			
Kvaerner (UK)	South Shields, Tyne & Wear	Photographic films, papers & chemicals			
<b>L</b>					
Ladbrooke Group - Hilton UK Hotels Division	Watford, Hertfordshire	Ship's cargo access equipment			
Laidlaw Drew	Livingston, Scotland	Hotel accommodation			
Leslie Hartridge - Special Products Division	Buckingham, Buckinghamshire	Combustion equipment (burners)			
London School of Economics & Political Science	London WC2	Automatic test equipment			
Lowes Refrigeration Co	Carryduff, Co Down	University tuition, research & consultancy			
		Refrigerated display & storage equipment hire			

# Tiphook plc



THE QUEEN'S AWARD FOR  
EXPORT ACHIEVEMENT  
1989

**Tiphook plc**  
Tiphook plc is a UK public company, listed on the International Stock Exchange, London, with a current market capitalisation of approximately £500m. Tiphook specialises in providing services to world transportation.

The core activities are the renting of containers, trailers and rail wagons, and tank containers.

**Tiphook**

**Container Rental**

TCR is the world's largest container rental company in the world. It currently supplies 400,000 TEUs (Twenty foot Equivalent Units) - the industry's yardstick - to the world's major shipping lines through a global network of independent container depots for the handling, storage, repair and maintenance of its containers.

**Tiphook**

**Rail**

Tiphook Rail provides a flexible range of rail wagons to operate on railway systems throughout Europe. It was launched just over four years ago and currently has a fleet of over 1,400 wagons, comprising a mix of container flat, tank, powder wagon, and aggregate wagons. This year has seen the launch of the patented Tiphook Playback system - a rail wagon that carries road trailers.

**Tiphook**

**Tank Rentals**

The world's largest tank container rental fleet operating 5,200 units transglobally.

**Tiphook**

**Financial Services**

Controls Group Treasury services providing stable financial environments to the Group's rental divisions. Also provides finance and operating lease facilities to the Group's client base.

**Central Trailer**

CTR is Europe's largest and fastest growing trailer rental company with a current fleet of over 20,000 trailers. Customers include Europe's leading retailers, brewers and other carriers. The Group currently operates in the UK, Germany, Holland, Denmark, France, Belgium, Finland, Sweden, Ireland and Spain. CTR is ideally placed to benefit from the European Community moves towards full integration and deregulation in 1992 and the proposed opening of the Channel tunnel in 1993.

**Tiphook**

**PLC**

7 Elmfield Road, Bromley, Kent BR1 1LT

United Kingdom

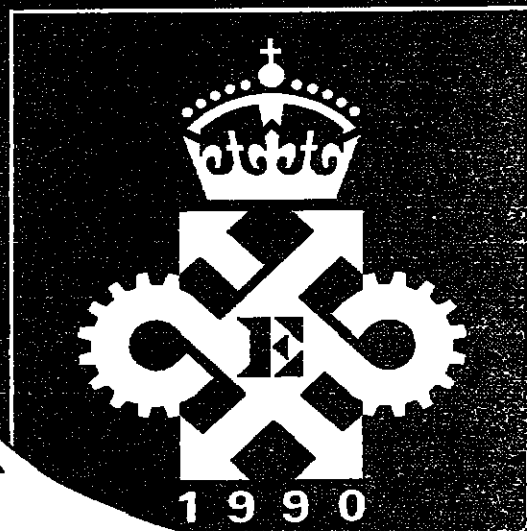
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G-BOAG

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## THE QUEEN'S AWARDS 1990: Company Profiles

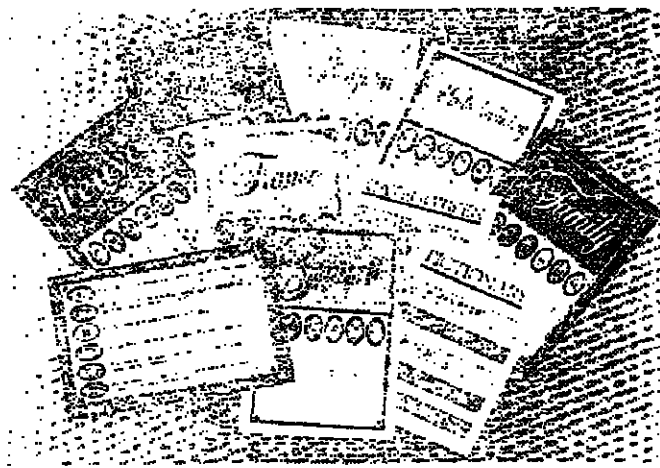
SERIF  
COWELLSWorldwide  
sales pursuit

**T**RIVIAL Pursuit does not translate easily into Arabic. When Serif Cowells, the USM-quoted Ipswich company which markets and manufactures the board game in the UK and Europe, decided to take on the Saudi Arabian market, they had to contend with the Saudi Arabian censor, who vetted each question and answer before passing the product for distribution. The language barrier was scarcely any easier to clear.

The company does not rate Saudi Arabia as a great success, but its sales force sold all the 20,000 Arabic language games which had been produced.

The East European market is another hard nut for trivia buffs to crack. Serif Cowells organised a Russian language television game show version of the board game, which is now shown in the Soviet Union. Mr Robert Wylie, the commercial director, said the Soviet authorities had not been eager to back the show with investment.

A Russian translation of the board game, in Cyrillic text, has been produced, but the company has not been allowed to put it on sale. Mr Wylie said: "We did the TV show with a view to sales in the future. The way things are moving in Rus-



Other games may follow to realms where even script differs

sia we might well find ourselves getting outdated."

Trivial Pursuit is moving into the opening markets of the Middle East and Eastern Europe after penetrating all the available markets in the West. The game is already marketed throughout the European Community, as well as in Scandinavia and Iceland, where most households possess a set. Although sales have now reached a plateau, the game remains the market leader.

Differences in national sense of humour make initial exporting a risky business. For example, sales were initially sluggish in the Netherlands, because the original set of Dutch questions was regarded as too difficult, without being particularly funny.

Big differences in the popularity of the game persist. Mr Wylie said: "It has been tremendously successful in France, but it's never taken off

to the same extent in Germany. We think it's a humorous and entertaining game. Make your own conclusions."

Ironically, Serif Cowells wins the award at the end of a tough year, in which pre-tax profits dropped by almost half to £3.67m. This was attributed to a decline in profitability, and a plateau in sales, both of which had been expected.

However, in the 45 months to the end of 1988, the period covered by the award, export revenue from Trivial Pursuit alone totalled £106m. The company, which now employs 853 people, plans to expand through other board games, such as Pictonary, which it sells in Europe, the US and Australia, and East Enders, which is based on the BBC television programme, but may prove harder to export than Trivial Pursuit.

John Authors

TANKARD  
CARPETSRed-carpet  
treatment

**T**ANKARD Carpets, a contract carpet manufacturer based in Bradford which now employs a workforce of 270, has carpeted a number of corridors of power. It was founded in 1989 by brothers David and Paul Tankard, who are now joint managing directors.

Recent contracts include the red carpet used by Presidents Bush and Gorbachev at the Malta summit last year, along with the carpeting for the House of Commons, the House of Lords and the London Stock Exchange.

The company had a turnover of about £7m in 1989, nearly half of which came from exports. It is now trying to exploit opening Eastern European markets, and has won a £30,000 order from the Bulgarian Government to carpet the Vitosha Hotel in Sofia.

John Authors



Paul Tankard, left, and his brother, David Tankard, founders and joint managing directors of Tankard Carpets

## WHITE &amp; CO

## Dr Martens steps out

**A** SURGE in the popularity of Dr Martens boots in Japan helped win an award for White & Co (Earls Barton) Ltd, a shoe-making firm based near Northampton.

The company launched a heavy sales campaign of the much-loved army boots in Japan eight years ago, and now considers the country one of its principal markets. Whites has been making and selling Dr Martens under licence from their inventor in Munich for 30 years, and the market for the product continues to expand.

Mr Don White, the managing director, said: "They are a cult." He attributed the brand's continued popularity to a number of factors: "They are fashionable around the world. They are very practical shoes, they're versatile, and they are easily adapted to new fashion. They are good for industry, comfortable, and they are very long-wearing. I think they're regarded very much as a British shoe and that's part of their appeal."

Apart from DMs, the company makes Goodyear welted

shoes, which Mr White described as "basically a classic shoe" which sells most heavily in Europe. Demand for welted shoes in Japan has now overtaken sales in America, which was previously the second largest market.

The company employs 220 workers in factories around Northampton, and now derives more than two-thirds of its revenue from exports. This represents a steady increase in export volume, although foreign sales are still regarded primarily as insurance for the domestic market.

A substantial sale had already been achieved in Europe, the US, and Canada before the company took on the Japanese market. Associated Agencies, which began selling the footwear in Japan seven years ago, says the trend this year is to punk and there are lots of young trendies buying these shoes in shops in Harajuku and Shibuya (London's King's Road equivalents in Tokyo). Meanwhile, the brands are now being introduced, with some success, to Hong Kong, Taiwan and Korea.

Mr White stressed that the quality of British shoes is becoming more of an advantage when competing against the significantly cheaper footwear produced in Far Eastern countries where labour costs are low.

The company is also expecting to benefit from the creation of the single European market in 1992.

Despite its international scope, the business remains a family company, which celebrates its centenary this year. Don White is a direct descendant of the founder, while Mr Nick White, who has recently joined the management, represents the fourth generation of Whites to be involved in running the company.

For Mr Don White, success in the international business field has been an extension of his contribution to English victories on the sports field. He played in the England rugby union team from 1947 to 1953, and after his retirement became the first England rugby coach, steering his side to England's first victory over the Springboks in 1969.

John Authors

## ADVISORY SERVICES

## A first for Harley Street

**A**DVISORY Services (Clinical & General), run by Dr Ralph Kohn, has brought a Queen's Award to Harley Street for the first time.

The company tests newly-developed drugs once experiments have confirmed they are safe for human consumption, and then clears them for sale on the world market. As development costs by this time can easily exceed £100m, reliable clinical testing is vital for the company's clients.

Advisory Services works only on clinical problems, and has no laboratories of its own. Its workforce organises tests on patients in conjunction with

hospital consultants. Placebo drugs are used as a control experiment whenever this is ethically acceptable.

The company attributes its success to the high international reputation enjoyed by British safety and research standards. Dr Kohn said: "A drug accepted by our health authorities will be registered in practically all countries of the world. The controlled clinical trial was developed in Britain."

Established in 1971 as the first British independent clinical research company, Advisory Services now has a workforce of 14, all of whom are highly clinically trained. Its main markets are in the US,

Western Europe and Japan with some work coming from Australia.

Changes in the Eastern bloc hold less immediate promise than for most of the other award-winners, as the pharmaceutical industry there is still far behind its Western rivals. Annual export revenue is around £5m, and the company now has more than 80 foreign clients. In the last 20 years treatments for diseases ranging from heart failure, cancer, and Alzheimer's, to peptic ulcers, back pain and asthma have been tested by Dr Kohn's team.

John Authors



Doc Martens get a try-on in a shoe store in Brick Lane

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in the group to be honoured with this award.



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CSA is a rapidly expanding company manufacturing and designing high quality radio antenna systems that are used in over 80 countries around the world.

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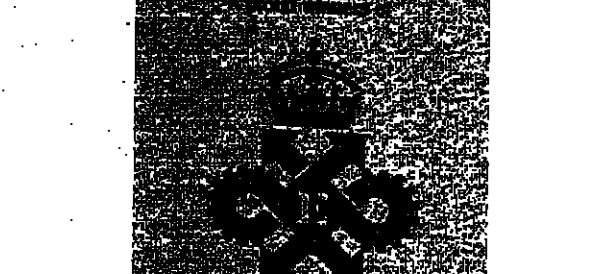
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## THE QUEEN'S AWARDS 1990: Company Profiles

## BERMANS &amp; NATHANS

## Costume-made

THE Falklands War broke out at a bad time for Bermans & Nathans, a company of theatrical costumers based in Camden, North London.

They were costuming a French musical and the best feathers for showgirls came from the Argentine vulture. Anything less would have been a poor substitute.

The company relies on meticulous historical accuracy in its costumes, and so this kind of detail was regarded as important. This eye for detail helped to win the Oscar for Best Costume Design for Kenneth Branagh's film of Henry V, which was costumed by Bermans & Nathans.

The company provided the clothes worn in the infamously produced musical Les Misérables, which ran in several cities of the US, and also completed an 18-month run in Tel Aviv. The contract which probably won the Queen's Award was to provide more than 10,000 costumes for nine different productions celebrating the bicentenary of the French Revolution in 1989.

Bermans & Nathans had to wait until this year before celebrating the bicentenary of its own foundation, which happened when a Mr Lewis Nathan opened his costume business in Tichborne Street, near Piccadilly. He is thought to have provided costumes for Sheridan's first production.

Jacob Nathan opened what he described as "Masquerade House & Fancy Costumes" in 1843. Charles Dickens, an amateur dramatics enthusiast, was one of the first clients, in 1844.

Morris Berman, a Russian master tailor who had worked at the court of the Tsar, opened his business as a military tai-

lor in 1894. His son Max moved the business to Irving Street in 1912, and provided military costumes for theatricals, and the infant film industry.

The company still specialises in replica military uniforms. Three films set in the Second World War, being shot on location in Europe, account for 2,000 of the uniforms the company keeps in stock.

The Berman company was acquired by Lord Grade's ATV Group in 1964, and acquired L & H Nathan in 1972. The company is now controlled by Hayesbury (UK), a private company owned by Mr Robert Holmes à Court.

Mr Lindsay Jamieson, managing director, thinks the company is the biggest of its kind in the world. There is a subsidiary in Paris, with sales offices in Munich and Hollywood.

These offices reflect the company's main export areas. France and Germany have traditionally been the main area of strength for Bermans, and their costumes are being used in a French film about the life of the painter Van Gogh.

The film industry accounts for most of the company's business in the US. Indiana Jones and the Last Crusade, last year's highest-grossing film at the British box office, and all four Superman films used costumes from Camden.

There are signs that the film industry behind the old Iron Curtain may also be stirring. Two of the films on the company's books at present are being filmed in Budapest - a Japanese-financed American film of the Josephine Baker story, and a Shogun film set in medieval Spain.

John Authers



Lindsay Jamieson: specialises in replica military uniforms

BONAS MACHINE, a textile equipment manufacturer based in Gateshead, Tyne and Wear, is the only individual company to have won awards for both technology and export achievement.

The awards come in spite of a loss of £3.2m in 1989, when the company came close to bankruptcy, and a turbulent industrial relations record which culminated in a nine-day strike early last year.

Mr Ian Harris, the managing director, bought the business from the Bonas family in 1984 at a point when, he said, the company was within days of receivership. However, the profits for 1989 were more than £4m.

The company's exports have advanced thanks to the innovation in "jacquard" machines which won the technology award.

Jacquards are necessary to control the pattern of finished textiles by operating the warp yarns of a loom.

While these devices were still mechanical, more powerful looms and advanced concepts in design were of little use, as machines could only operate as quickly as their jacquards.

Bonas made the first electronic jacquard in 1983, which roughly trebled the operational speed of looms. The company subsequently won a Queen's Award for the invention, but at this stage the looms could only be used for producing garment labels.

This year's awards follow

## BONAS MACHINE

## Double success for jacquards



Ian Harris: bought the company in 1984

the successful application of electronic jacquard machines to broadcloth weaving - fabrics up to three metres wide can now be handled on electronic jacquard looms.

The practical problem has now been reversed, and looms have difficulty keeping up with the jacquards which operate them.

Bonas introduced their new high-speed machines in 1987, and almost 1,100 of its jacquards have been installed on

looms in textile mills around the world.

The company does not manufacture broadcloth looms, but makes the jacquards for them, and then negotiates with customers. Bonas accounts for more than half of all the electronic jacquards sold worldwide.

Exports account for 85 per cent of Bonas's turnover, which in 1989 stood at £22m. Western Europe is its main market, with sales in the US

and Japan. The company has established service centres for its machinery in Hong Kong, the US, Germany, Italy, and Belgium, with agents in another 50 countries.

It has traded extensively in eastern Europe, and its label-making looms were established in Poland and East Germany well before the recent wave of political change in the area.

Bonas licenses its technology to companies in Belgium and Japan, and exports jacquards to a Swiss loom manufacturer.

Apart from the technological changes, Bonas has also introduced a radical pay scheme for its workforce of 320, which links wage increases directly to productivity. This meant that their workers recently won a 12 per cent pay award, 4 per cent ahead of inflation, without demur from the management.

An agreement signed with the Amalgamated Engineering Union in 1986 has ensured greater flexibility from employees, and clarified their responsibilities.

Productivity has also been helped by relocating to new premises within reach for the old workforce.

In 1988, the company moved from its outdated premises in Sunderland to a new, purpose-built factory in Gateshead, with a floor space of 100,000 sq ft.

Expansion means that an extension of 38,000 sq ft is being built.

John Authers

## REEDIEHILL DEER FARM

## Increasing the taste for venison

REEDIEHILL Deer Farm, the smallest enterprise to win a Queen's Award for Export Achievement, has a pivotal role in the growing worldwide business of deer farming. It exports red deer all over the world to farmers creating or expanding deer farms as the popularity of venison increases.

Mr John Fletcher, who runs Reediehill with his wife Nichola, is widely regarded as the father of deer farming in the world. Exports have quadrupled in four years, so that overseas sales account for nearly all the company's turnover of more than £500,000. But it employs only four people.

France is the Fletchers' biggest market but they also export to other European countries such as Denmark, as well

as to the US, New Zealand, and Japan. The Fletchers export about 1,000 red deer a year, some of which they raise themselves at their 130-acre farm on the hills above Auchtermuchty in Fife. The rest are bought in from other deer farms in Britain or are captured in the Scottish Highlands.

"I'm not a farmer any more so much as an executive," says Mr Fletcher, who spends much of his time organising export transactions, advising farmers on how to raise deer and "generally evangelising about deer farming." Red deer from Scotland are in strong demand, he says. "Genetically they are very sound stock, they are very quick maturing and they are available in large numbers."

Mr Fletcher pioneered deer farming in Britain in the 1970s,

demonstrating that deer are easy to raise in captivity and that the farmed animals are tender and hygienic. He believes venison will become increasingly popular at the dinner table, partly because of its very low fat content.

But, he says, he is "sad that we have to export so much. It's because there's so little official support for this type of farming in Britain." There are now 260 deer farms in Britain, but he does not know any deer farmer who makes his living solely from deer farming.

He says that whereas cattle farmers get 75 per cent compensation for animals compulsorily slaughtered for having BSE (mad cow disease), deer farmers get only 50 per cent compensation when deer are killed for tuberculosis.

Though hill farmers receive the hill livestock compensatory allowance making it economic to keep sheep and cattle, deer farmers do not. As a result most British red deer farms are in England on low ground rather than in the Scottish hills where it would be an ideal form of diversification.

The industry is growing faster in other countries. In New Zealand, Mr Fletcher says, more than one in 10 farmers are involved in it. Mrs Fletcher says: "We know from market research that a large potential market for venison exists here. If we don't expand deer farming here, the people in Europe, to whom we are selling deer, will export their venison back to us."

James Buxton



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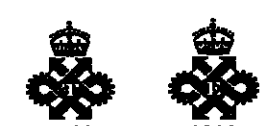
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## THE QUEEN'S AWARDS 1990: Company Profiles

## TECHNOPHONE

## A handful of honours

BRITAIN'S yuppie culture has been characterised by the pin-striped suit, the personal organiser and the hand-held portable phone.

But a company which has benefited from - if not promoted - one of these much-maligned UK status symbols is also cashing in on it overseas. Technophone, of Camberley, the brainchild of Swedish-born entrepreneur Nils Martensson, has been manufacturing light-weight hand-held cellular telephones for the UK market since 1984.

The technological breakthrough needed to make such small handsets won the privately-owned company a Queen's Award for Technology in 1988, exploiting this technology has now earned Technophone its third export award in as many years.

Perhaps Technophone's most notable export achievement is that it has continued to flourish in a market dominated by the electronics heavyweights - NEC, Hitachi and their peers from Japan, Motorola from the US and Nokia-Mobira from Finland.

Whereas these companies have huge research-and-development budgets and massive manufacturing muscle, Tech-

nophone has a research and development team of 150, and two manufacturing sites, one in Camberley and a second just beginning to function in Hong Kong.

But it is the flexibility that its small size brings, says Technophone's Graham Durnall, that has produced the company's export success.

Whereas the mighty manufacturers are only prepared to go into markets where cellular radio systems use mass market technology, Technophone is prepared to re-engineer its hand-held phones for countries with their own individual systems, such as France. There, Technophone is the only company authorised to sell hand-held phones for use on the network.

Not that Technophone is ignoring the larger markets: it makes equipment for 26 different countries to a range of different technical specifications. Top of the target list these days is the US, the world's largest cellular telephone market.

To try and capture a sliver of that market Technophone decided that it would have to move into car telephone manufacture - its innovative hand-held design was simply not

what the American market wanted. So the company set up its Hong Kong manufacturing base to make car telephones by exploiting its technological developments in the hand-portable field.

That car phone, a derivative of which the company will launch in Britain this week, houses most of the electronic wizardry in the handset. In most car telephones the critical technology is packed into a box of tricks, fitted in the car boot.

The advantage of the former approach, says Technophone, is that once the transceiver is fitted in the boot, anyone with the appropriate Technophone handset can plug it in and use it to make calls. The bill will then be sent to the owner of the handset - not the owner of the car.

Durnall says that much of the growth in the company's exports has been as a result of a burgeoning number of countries which want to follow in the steps of the US and Europe and install cellular radio systems. That growth could well accelerate even further, as many countries, such as those in eastern Europe or the Third World, embrace mobile phone technology as a quick way of bypassing the rickety old wire telephone system.

But with the good comes the bad. That growth, Durnall acknowledges, is likely to lead to the domination of a handful of well-proven systems - such as those used in the US and the UK. That would obliterate the sort of niche market out of which Technophone has made much of its money. And, as a growing number of manufacturers will enter the fray, including many from the Far East, the increased competition is likely to push prices down.

Although many customers are still prepared to pay a premium for innovative technology, Durnall says that the cut-throat competition in the UK is already forcing the company to cut its prices to its retail customers, although the company is balancing that shortfall by reducing its manufacturing costs.

One thing that Technophone has already proved is that it has the stomach for the fight. But it will take another year to see whether that will result in the company winning a fourth Queen's Award for export.

Della Bradshaw

NAVAL shipbuilding during the 1980s was not one of the easiest sectors of UK industry in which to survive. The 1990s do not look much easier, with the possibility that a defence review may lead to reductions in defence spending.

However, Sir Robert Easton, chairman of Yarrow Shipbuilders, a Glasgow-based division of GEC, is confident that his company is well placed to survive despite the advent of postmodernism.

The reason for that confidence is GEC's investment in a new £8.25m module hall and manufacturing system that should allow the company to reduce costs, and increase the company's competitiveness when bidding for future contracts. Their faith in the new system should be given a boost by the fact it has also won a Queen's Award for Technology.

The issue of costs is becoming more and more important for all naval shipyards at a time when the Ministry of Defence is demanding better value for money.

Before the new manufacturing system was fully installed, Yarrow lost a contract to build three Type 23 anti-submarine frigates to Swan Hunter Shipbuilders on Tyneside. The Glasgow company was told it lost the contract because its tender was more expensive.

The new system has allowed the company to reduce the cost of production because it can now build the warships much more quickly than before.

The first Type 23 frigate built by Yarrow took 51 months from laying down the hull to final delivery. When the company bid unsuccessfully for the three ships last year, it hoped to complete them in 36 months. Yarrow says when it bids for the next round of frigates this year it will be able to complete a ship in 30 months.

The reduction in time required to build the ships has been made possible by the purchase of two £750,000 transporters each capable of handling 200 tonnes, with a total lifting capacity of 400 tonnes.

The first step is to place slices of the ship's hull upside down on the transporters. Then prefabricated segments containing ventilation, electric wiring and most of the 13,000 pipes found in a Type 23 are fixed into position. The prefabricated units can be a considerable size because access to the upside down hull is so much easier than before.

The components can also be fewer and larger than those that used to be installed on ships. In the past, these needed



Yarrow's Type 23 frigates are built on two £750,000 transporters which have cut the construction time to 30 months

## YARROW SHIPBUILDERS

## System-built Type 23 frigates

to be small enough to pass along narrow corridors and down small hatches. The length of some pipes, for example, has been increased from 2 metres to 6 metres, reducing the need for flanges. Pipe installation times have been reduced by half.

Once a segment is finished it is turned over right way up and welded to the other sections. Using this system, 19 of the 22 segments of the ship can be installed before launch.

Only propellers and delicate components such as the sonar, which might be damaged by a launch, need to be fitted later. Previously, 85 per cent of the work was done before launch and took 18 months to complete, while the remaining 15 per cent of the work took 23

months on the water because of the difficulties of access to the 300-odd compartments on a ship of this type. The amount of work required after launch has therefore been reduced considerably.

To help design the prefabricated sections, the company uses a £3m computer-aided design centre, supplied by Prime Computer. The company says design work that took three months can now be completed in two days.

The new method of building the ships was not achieved without difficulty. Not least, the labour structure of the organisation had to be adjusted. Previously there had been strict demarcation lines between electricians, steelworkers and outfitters, but

these roles became confused as most of the work came to be done simultaneously.

Although the different categories of workers are still recognisable from their green, brown and blue overalls, the company says they are no longer distinguishable by what they do.

Another problem created by the new system was that the company's suppliers need to provide components on time. If a widget is late, it has to be inserted much later in the production process when its final position may not be easily accessible.

"We're still a long way from just-in-time manufacture," explains Sir Robert Easton. "But we have to educate our suppliers. If the Ministry of

Defence wants a ship on time, it has to learn to deliver its weapon systems when we need them. It's slowly coming to terms with the new requirements."

Sir Robert believes that because manufacturing costs at the yard are increasingly falling, so the chances of winning exports are increased. Pakistan, Australia and New Zealand have expressed interest in ships built using the new system.

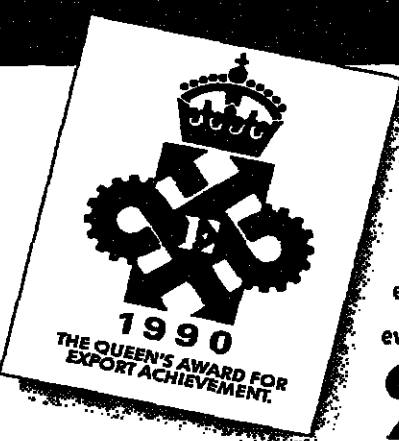
"Having lower costs should make it easier to sell the ships, but not easy," says Sir Robert. "Being a ship-builder isn't just a matter of building ships. You have to be a politician, too, and a bit of a soothsayer."

Paul Abrahams

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## THE QUEEN'S AWARDS 1990: Company Profiles

ICI

## A clutch of accolades

PERHAPS it was predictable that ICI should be to this year's Queen's Awards what "Driving Miss Daisy" proved to be to this year's Oscars - both walked away with a clutch of accolades. Over the 28-year history of the UK honours only the industrial muscle of ICI has been able to match ICI's total of 37 awards.

This year the chemical company, one of the UK's few internationally-renowned industrial concerns, has won five awards, equalling the number it won in the event's first year, 1966.

Three of this year's awards are for technology and two for export, with the five divisions, or developments, for which ICI has been singled out showing the breadth of the company's activities. The awards are for agrochemicals, biochemicals, an industrial process to make chlorine, a process for matching human genes and a red dye that does not tinge other clothes pink when they are washed together.

Coincidentally, when the company won its first five awards, they also included one for the agrochemical division, one for dyes, a third for pharmaceuticals and a fourth for an industrial process - to handle naphtha, a kind of oil. (The fifth was for fibres.)

As well as the company's in-house technical expertise, ICI's talents for acquiring and collaborating with small, innovative institutions or individuals

has also been recognised in the awards.

On the export side, an award has gone to Cambridge Research Biochemicals, of Northwich, Cheshire, which supplies peptides, antibodies and other biochemicals. The company, only 10 years old, was acquired by ICI in 1989, just before it won one of last year's Queen's Awards for Technology. Eighty-two per cent of the company's rapidly growing sales are exported.

One of the most exciting developments for which ICI has been given a technology award - genetic fingerprinting - was originally developed by Professor Alec Jeffreys at Leicester University and patented by the Lister Institute of Preventive Medicine, in Stammers, Middlesex.

The Cellmark Diagnostics division of ICI has commercialised the complex technique, which has captured the public's imagination. Genetic fingerprinting, a scientific sleuth used extensively to examine family relationships - such as in paternity suits - and to identify individuals left at the scene of the crime, works by analysing the DNA - every human being's biological code.

The scientists look for the genetic codes that can be characterised, and these are represented by a series of black lines - similar to the stripey bar-codes used to identify cans

of baked beans. Each individual has a unique "bar-code".

Cellmark Diagnostics now has two laboratories - one in the UK, the other in the US - which offer a service to police forensic investigators or individuals.

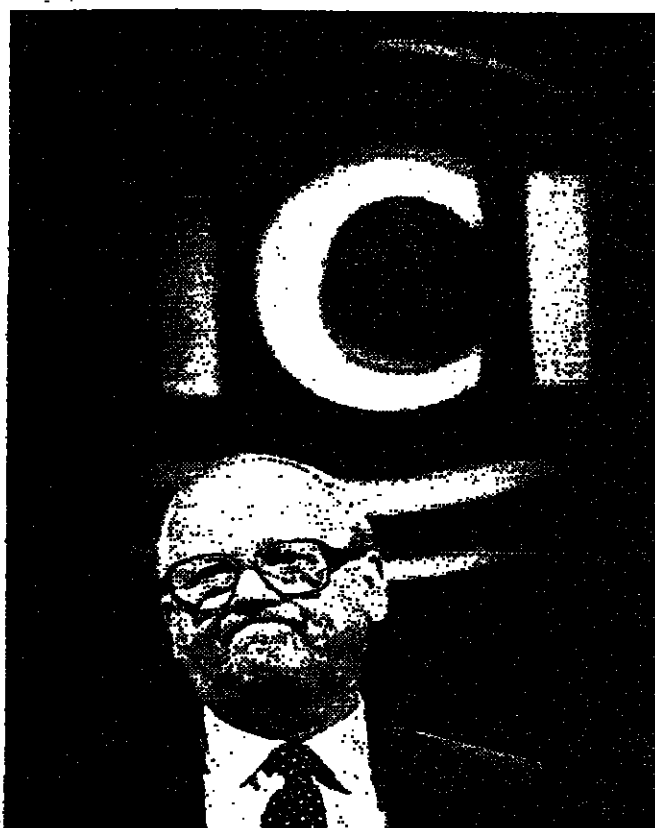
The UK laboratory has carried out 27,000 genetic fingerprint tests to date, reports Mr Paul Debenham, science director of Cellmark Diagnostics. Initial tests concentrated on DNA forensic casework, identifying rapists by analysing semen, or murderers by blood left at the scene of violent crimes.

Many international police forces, and the Metropolitan force in London and the Home Office, have licensed the technology from ICI and have been trained by Cellmark to do their own tests.

Mr Debenham says that a lot of work is done privately for those accused of crimes, to see if the defendant can use the police's genetic fingerprinting evidence to prove his or her innocence. A lot of work is done in family cases for immigration.

"Men come to us who have not had sufficient paperwork to prove to immigration officials that the people overseas really are their family members. They have no resource left except DNA analysis," says Mr Debenham.

ICI's second award for technology has gone to ICI's Colours and Fine Chemicals Division. It has been singled out for



Sir Denys Henderson: sensitive to the environment

a red dye, which is as much a boon to the fabric manufacturer as to the consumer washing his or her clothes. Because the dye is five times as powerful as its predecessors, it takes much less to dye the fabric, so reducing costs.

The dyes - there are two variants of the red colour already on the market and a third being launched later this

year - have been designed for use with polyester fabrics which are notoriously difficult to make colour-fast. ICI's benzo difuranone dye has been developed to resist what the chemical companies call thermal migration.

That is, when the fabric is heated during the dyeing process the dye moves to the surface of the fabric. When the

garment is washed in warm water the same thing happens again - causing the colour to wash off. ICI has overcome the problem by developing a dye which does not move to the surface when heat is applied.

The company's expectations for the dye are big. It has already announced its plans to build a new manufacturing facility at Grangemouth, Scotland, to make the dye. And now the company has mastered the art, or science, of the red colouring, it is planning to make other colour dyes for polyester fabrics.

Perhaps less popularly exciting, but of more interest to industry is the development of an electrolyser for the production of chlorine and caustic solutions from sodium or potassium chloride brines. Sir Denys Henderson, Chairman of ICI, points to this development, which eliminates the need for mercury in chlorine production, as proof positive that ICI is "sensitive not only to market opportunities but to larger environmental issues" as well.

Chlorine is used in everything from pharmaceuticals to pesticides and agrochemicals - but is perhaps best remembered as that nasty tasting substance used to disinfect swimming pools.

The second export award has been won by the company's agricultural division, in Farnhurst, Surrey, one of ICI's best-known divisions. It has been pinpointed for its sales of plant protection and growth products to more than 150 countries. In 1989 its worldwide sales, of 3,000 products, totalled £322m.

Della Bradshaw

## Some uncommon technical touches

Della Bradshaw looks at two three-man organisations

THE BEST rags-to-riches stories always begin with one man, a vision and a garden shed.

Substitute a laboratory built on the side of the house for the garden shed, and a passable living for enormous wealth, and you have the story of Mr Ernest Moorey, founder of EM Electronics, of Brockenhurst in Hampshire. With only two co-workers - his wife and his son - Mr Moorey's company is one of two organisations with a staff of just three to win the Queen's Awards for Technology this year.

The two concerns, EM Electronics and the NERC ICP-MS facility at Royal Holloway & Bedford New College (part of the University of London), have much in common - and much that divides them. To begin with they both produce the sort of technical laboratory

equipment that makes the layman recoil in incomprehension.

EM Electronics makes instruments to measure extremely low voltages. Its biggest single customer is the National Physical Laboratory in Teddington, but universities and laboratories around the world use the equipment.

Royal Holloway has developed equipment which can measure the amount of metals or other minerals in a substance - poisonous effluents in the water supply, say, or the iron or lead content in a human blood or tissue sample. The breakthrough in this spec-

trometer is that it can measure for over more than 60 different elements using just one sample, and taking just one or two minutes to do the job. And it is highly sensitive to minute quantities of these elements.

Another common bond is that both the developments which won Queen's Awards reached fruition because of the perseverance of one man. In the case of the spectrometer, Mr Alan Gray, now with Royal Holloway, was instrumental in pushing developments through. While with EM Electronics it was Mr Moorey's perseverance over a three-year period, with no source of

income, that produced the award-winning development.

Mr Moorey became a self-employed design consultant in the early 1980s, and, "did some doodling between design jobs." The results looked so interesting that he spent the best part of the next three years, and mortgaged his house, to produce the prototype machine by hand.

He took the equipment along to the National Physical Laboratory for testing, and they ordered one straight away.

These days the printed circuit boards and other parts are subcontracted to a local company and the cases are made

by a precision engineering company in Devon. But Mr Moorey still produces the highly sensitive central measuring devices for his equipment himself.

Nor does he feel it is necessary to advertise his wares. He waits for customers to contact him - a policy which is bringing in orders for 60 instruments a year, almost all from overseas customers.

The three-person team at Royal Holloway, on the other hand, opted early in the development phase of its equipment to have an outside company commercialise, manufacture and market the products. With

an average selling price of £150,000 per item, it is easy to see why the university was unable to do it themselves.

Instead they worked with VG Elemental, of Winsford, Cheshire, itself a company specialising in spectrometer developments. VG Elemental has now sold 250 of the big machines, 80 per cent of which have been exported overseas, reports Mr Tony Kinsella, sales and marketing director of the company.

Although the largest market for the equipment is already in North America, Mr Kinsella is hoping that sales there will rise sharply following the decision by the US Environmental Protection Agency, just last month, to approve the use of this technique to analyse tap water, soil or ground water samples for environmental purposes.



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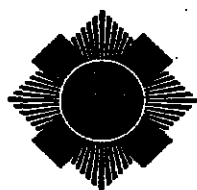


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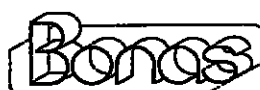
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## MANAGEMENT

## Factory restructuring

## Hoover sets out to make a clean sweep

Not only is product variety and production complexity being substantially reduced at the domestic appliance manufacturer's Merthyr plant in Wales, but line management is being fundamentally changed also. John Gapper reports

Mervyn Davies, a foreman at Hoover's plant in Merthyr Tydfil, south Wales, is not unhappy at the prospect of his job disappearing at the domestic appliance maker. "It will be sad if I disappear with it, sure, but if you are talking about running an efficient factory it has to be done," he says. Davies spent nine years as a sergeant in the Royal Signals. He followed that with 18 years as a foreman at Hoover, nearly all in a similarly ambiguous role, stuck between officers and men; he is one of 42 foremen whose jobs are to be abolished in a work restructuring.

"I believe you are born to be a foreman," says 44-year-old Davies. "You have got to be a leader of men. You have got to take some flak and you have got to give it." Born to the role or not, Hoover's foremen will soon have to get used to a different one.

For some, the new role will be redundancy. For others, it will be that of specialist tasks within the old factory on the outskirts of Merthyr which was first built in the aftermath of the first world war for returning soldiers to work. The rest will join a new supervisor grade.

There is a lot of uncertainty inside the Merthyr plant these days. It is a time of old certainties being abolished without new ones to take their place. The previous order was broken by the announcement last September that 290 of the 1,390 jobs there were to go.

They have gone now, and a new factory manager has been in place since January, planning new ways of working to fit in with a £12m capital investment approved by Hoover's US parent company Maytag. Hoover is to change, but some of its workers are still unsure of how.

Ian Bonnar, general manager personnel and associate director of the

Merthyr plant, wants a different factory from the traditional and aged one he has inherited. "It is like a car that has run very well for years, then you miss a service or two, and suddenly when you put your foot down it does not take off," he says.

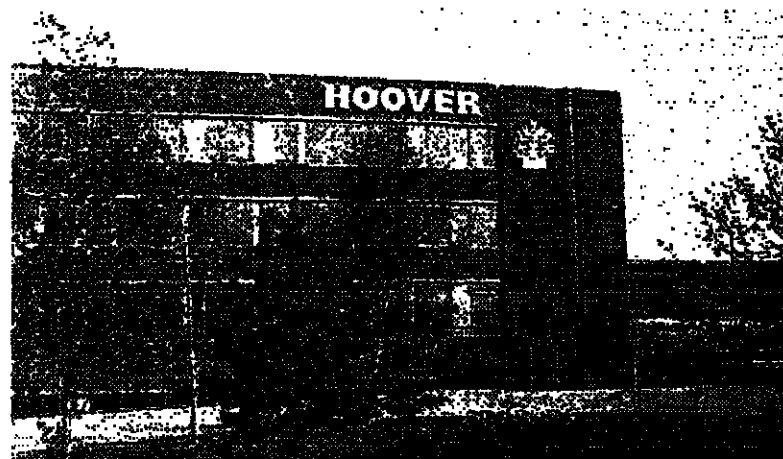
The announcement of job cuts in September came from a broad review of the way Hoover works. The review was known within the US parent company as "Backdraught" because it involved a group of senior managers standing back to look at operations from the company's Merthyr head office.

Among other things, the review concluded that Hoover was producing too much to match a downturn in demand and increased competition from the Far East. Job cuts were decided on both at Merthyr and at the company's vacuum cleaner manufacturing site in Cambuslang, Scotland.

A series of changes emerged from Backdraught, from a switch in advertising agency to a new distribution contract. It also tried to address the managers' old complaint that Hoover was led too much by its marketing side - "We would sell machines with bells and whistles on," says Bonnar.

But the implications of the review for the Merthyr plant - beyond the cut in jobs to 1,603 - are only now starting to emerge. They range from a change in production methods affecting 35 per cent of floor space to a set of innovations in working arrangements and supervision.

The news of another big work



Ian Bonnar is making fundamental changes to the traditional and aged factory that he inherited at Merthyr

reorganisation prompts some disbelief from Bill Bish, the plant's union convenor. Only four years ago, under Hoover's previous US owners, Chicago Pacific, it was in the throes of a project known as Phoenix under which manufacturing methods were revised.

"Quite frankly, I don't think the plant is being run as efficiently as it was in the past," says Bish, who emphasises the unions' commitment to increasing profitability. He says production changes such as the introduction of just-in-time techniques have not been thought out thoroughly.

The main production changes for the Merthyr plant will be the use of polypropylene tubs in place of the

current metal ones, and a move to buying-in pre-painted shells for the machines rather than pressing and painting steel inside the plant. This will in turn affect final assembly.

Bonnar's aim is to cut down the variety and complexity of tasks in assembly. As part of the Phoenix project, the company moved from cycle times of 30-45 seconds in this area to times of up to two and a half minutes. The aim was to enrich the jobs of workers and cut absenteeism.

A side-effect has been to make it much more difficult to train production workers. The new cycle times require workers to carry out 5,000 operations to achieve full competence, against 50 for 30-second

tasks. The company has found the commitment too heavy and wants to return to the old ways. But Bonnar's attempt to revitalise the plant involves more than making production simpler to fit in with a re-shaped marketing effort. It also means cutting through some of the accumulated layers of tradition in a factory where the average age of workers until recently was 49.

He has identified a number of targets:

● More managers are being brought in from outside. There is a new technical manager at the plant and he is recruiting managers for other functions. The family traditions of Hoover have combined with the distinctive nature of the plant

in the Merthyr area to keep turnover very low until now.

● Craft workers are being asked to train in multi-skilling. For instance this would involve electricians doing fitters' jobs and vice versa. The number of maintenance craft workers has been cut from 83 to 43 and Bonnar wants installation work to pass to outside contractors instead of direct employees.

● The materials delivery group of 70 mainly semi-skilled workers is to be asked to work more flexibly between areas of the factory. More generally, he wants to achieve more flexibility in deploying semi-skilled workers across functions in assembly lines.

But the most dramatic change in working arrangements is the proposal to abolish the jobs of all 42 foremen at the factory in favour of an extended layer of supervisors who would be clearly identified as part of management rather than being stuck between the workforce and managers.

From long experience as an industrial relations manager in the motor industry, Bonnar talks of foremen as being "a bit of an enigma" in many companies. Within the Merthyr plant, he says many foremen have been inadequately trained and have more or less abandoned the management of people.

Instead, they have become chasers of materials on lines. He means to remedy this by re-appointing some of them to specialist tasks of this kind while bringing in better

trained supervisors with responsibility for controlling the way work is handled within sections of plant. In the washing machine assembly area, he envisages the current 16 foremen and three superintendents - as supervisors are known in the factory - being replaced by about nine supervisors. Each supervisor is responsible for about 70 people.

The role of the foreman over the years has moved from being a manager to being an activity manager, he says. "The calibre of foreman we have here now does not meet our needs and we are left with this extra layer that slows down communication."

As one of the foremen better-regarded by the company Davies sees some sense in this view. "I don't think the role of the foreman is playing at the moment is quite sensible," he says. "He is half on the workers' side and half on the management's side and he needs to be all on the management's side."

Bish says the company has been at fault in its treatment of foremen. One reason the foreman's role has been degraded is the company's abolition of materials progress chasers as part of a move to a just-in-time system, he argues. Foremen have simply ended up covering for the absent chasers.

The fate of Hoover's progress chasers raises a common flaw in many work re-organisations: the remaining structure tends to absorb the absent jobs informally. Is there then a guarantee that Hoover's foremen really are to be abolished, and they will not re-emerge under another name?

Bonnar believes not, if his aim of re-focusing the manufacturing process to simplify it and improve communications is achieved. For him, foremen have been one of the accumulated layers that have stifled the Hoover plant for too long, and need to be removed.

Collaboration is "a recipe for tearing up pound-notes," according to the chief executive of one technology-based company. Yet, even for companies which do their own research and development, collaboration is now the most important source of new technology, according to a study on British corporate attitudes to the exploitation of science and technology.

The study was carried out by the two-year-old Centre for Exploitation of Science and Technology, the Manchester-based think-tank set up by some of Britain's major research-conscious companies.

A total of 51 directors and senior managers of UK technology-based companies were interviewed by John Cheese, a

## 'The most important source of new technology'

David Fishlock reports on a study of attitudes among British companies to collaboration

Cest researcher. His findings corroborated evidence from its previous surveys of specific technologies, says Bob Whelan, Cest's director. These interviewed all believe technology to be of critical importance in maintaining competitiveness, but recognise that they must innovate more frequently or make bigger leaps, to keep pace with competitors overseas.

They are turning increasingly to collaboration across a very broad spectrum - joint ventures, licensing deals, pre-competitive research partnerships - as well as mergers

and acquisitions, to provide the new technology they need. As Cheese reports, "by sourcing technology externally, companies can share the burden of innovation, gain access to specialist skills and contain risk."

So central is technology collaboration becoming, Cest argues, that it must become part of corporate strategy, and no longer be treated as a piecemeal pursuit to be left to the initiative of relatively junior managers.

Joint venture collaboration of any sort brings an added bonus, one technical director

acknowledges: "Having to convince another party that your idea is a good one forces you to think things out better," he says.

Collaboration partners cited as up-and-coming include universities and polytechnics. These are already a source for over 70 per cent of those surveyed, but draw a contrasting range of comments, from "very good value for money" to "can't come up with the goods on time".

Collaboration with supplier companies both at home and abroad is already a significant source, and one expected to

increase. Tighter links between buyer and supplier can help contain technical and financial risks of innovation.

Mergers and acquisitions are not yet a major source of technology for those surveyed but are expected to increase in importance more rapidly than the other sources. Foreign acquisitions, foreign joint ventures and UK acquisitions are the three sources the use of which is most expected to increase, says a Cest spokesman.

Cest reflects that this expansion in collaboration has two big implications for companies. One is that the relative

decline in importance of in-house R&D as the source of technology, compared with the rise of other sources, may partly decouple competitive gain from what is spent on R&D and in developing in-house technological skills.

Many companies, by sharing their technology, may merely be settling for competitive equality, Cest argues. The other implication, perhaps even more fundamental, is for the way the company is managed. Project management is emerging as a core skill. Cest believes sustainable competitive advantage will accrue

to companies which are consistently better and faster at adapting externally sourced technology to their needs. In short, for a research-based company of the kind Cest concerns itself with, if technology is to be acquired through a variety of collaborations rather than generated in-house, there must be a corresponding strategy for technology acquisition, and overall management of the collaborations. Moreover, its management will be no easy matter - just think of the complications a variety of sources will bring to any question of intellectual property rights.

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## LEGAL COLUMN

## Europe keeps business on the boil for expanding lawyers

By Robert Rice, Legal Correspondent

WHILE the UK law firm merger boom of the late 1980s seems to have burnt itself out, the realignment of the profession across Europe shows no signs of slowing down.

Firms from all over the globe continue to expand their European operations, apparently undaunted by tales from across the Atlantic of a downturn in mergers and acquisitions work and the laying off of corporate associates among some of New York's finest after the collapse of the junk bond market.

Europe is different, of course: it has 1992 to keep it warm. Foreign direct investment into Europe, particularly from Japanese and American companies, is expected to rise substantially over the next two to three years. The market in cross-border mergers and acquisitions, joint ventures and other forms of strategic alliances is buoyant.

All of that means more work for lawyers, and if the volume of work should fail to live up to expectations there is always the East to keep the wolves from the door. At least, that is the theory.

Law firms have been falling over themselves in their hurry to open offices in the Eastern Bloc since the turn of the year. Given the rapid pace of moves towards reunification in Germany, Berlin has naturally been the focus of much of the attention. London solicitors Frere Cholmeley have become the latest firm to open an office there.

Poland too is now creating much interest. Amhurst Brown Colombotti has just become the first English law firm to open in Poland.

As if to prove a point, more than 200 lawyers from the West will gather in Warsaw today for a conference on Eastern Bloc joint ventures sponsored by the International Bar Association and the Polish Bar Association and the Polish Institute of State and Law.

The big development in European practice last week, however, was the announcement by five of continental Europe's leading law firms of the formation of a strategic alliance to co-operate on cross-border and EC work.

The five member firms of "The Alliance of European Lawyers" are Germany's Boden, Oppenhoff, Rasor, Schneider & Schiedermair; the

Belgian firm De Bandt, Van Hecke & Lagae; the Dutch firm of De Brauw, Blackstone, Westbrook, France's Jeantet et Associés and Spain's Uriá & Menéndez.

That is a powerful grouping. Four of the five figured prominently in the recent survey of the four top-grossing law firms in five European cities carried out by the American Lawyer's sister publication European Dealmaker. The fifth, De Brauw, Blackstone, Westbrook, is in fact the largest member of the group, with 200 lawyers and the greatest spread of offices in The Hague, Rotterdam, Amsterdam, New York, Brussels and, from last week, London.

De Bandt was the largest grossing law firm in Brussels. European Dealmaker estimated the firm's gross revenues for 1989 at \$14m (\$8.5m). Boden Oppenhoff was ranked the third-highest-grossing law firm in Frankfurt, with gross revenues of \$17.6m. That figure, however, represented the combined revenues for the whole year of Cologne's Boden Oppenhoff and Frankfurt's Rasor & Schiedermair even though the firms only merged in July. Uriá & Menéndez was ranked third-highest-grossing firm in Madrid, with gross revenues of \$10m, and Jeantet et Associés the second-highest in Paris, with gross revenues of \$15.8m.

The firms are therefore all leading operators in their own home territories. The alliance, however, will give them an impressive and unique geographical spread. It will have offices in Cologne, Frankfurt, New York, Brussels, Paris, London, Madrid, Barcelona, The Hague, Amsterdam, Rotterdam and the Ivory Coast.

Some rationalisation of the overlap in offices would make strategic sense and the intention is to open a combined Alliance office doing EC and transnational work which will consolidate the existing Brussels offices in the autumn. The offices in New York and London will also be integrated by the end of the year.

The individual firms will continue to practise independently in their own countries. The principal aim of the alliance will be to provide a cohesive pan-European service through teams of specialists from each member country.

The teams will meet regularly to review European developments and will advise on national and EC laws governing cross-border activities in the areas in which the members already specialise, such as mergers and acquisitions, tax, anti-trust, corporate finance and environmental law.

The justification for the alliance is simple. Mr Frans Rosendaal of De Brauw Blackstone Westbrook says: "Increasingly, international businesses are demanding an international approach from their advisers. We believe that by forming this alliance we will be able to provide an improved service for our clients."

The crucial question of all of that, however, is: why is no UK law firm involved? The answer is quite simply that none was asked. The alliance's view is that it enjoys such good relations with a number of the UK's top firms that it would have been difficult to single out one firm to join the alliance - not to say counterproductive for its relations with others.

In reality it is difficult to resist the conclusion that the decision not to include a UK firm was deliberate (although why the Italians should have been excluded is less clear). After all, the rationale behind the creation of the alliance must surely be to enable its members to compete more effectively with the large US and UK firms for a bigger share of the cross-border transnational work flowing into Europe at the moment.

IT IS TEMPTING to say that "The Alliance of European Lawyers" will have more offices than virtually any other law firm in the world, except, of course, Baker & McKenzie. In recent years B&M has

been at the forefront of the development of legal services in the Eastern Bloc countries, opening offices in Moscow, Budapest and now Berlin.

It must be particularly pleasing for B&M, London, therefore (as well as one in the eye for some of its competitors who have tended to sneer at B&M's way of doing things, labelling it little more than a franchise operation), that it has become the first law firm to win a Queen's Award for Export Achievement. According to Mr Malcolm Palmer, the firm's administrative partner, the award highlights the considerable volume of foreign business for which it successfully competes, not just with other London law firms but in the US and elsewhere.

BEFORE leaving the theme of the development of legal services across Europe, the recent formation of both a British-Hungarian lawyers' association and a British-Czechoslovak law association should not be allowed to pass unnoticed.

Both associations have sprung from the frantic demand for information about the legislative and other changes taking place in these countries on their way to becoming market economies. On Friday, the Czechoslovak association in conjunction with the Centre for Commercial Studies at Queen Mary and Westfield Colleges will hold an inaugural seminar on new Czechoslovak business legislation in the Old Hall, Lincoln's Inn.

It will be addressed by, among others, Professor Pavel Kalensky of the Prague Institute of State and Law, and the Financial Times's former legal correspondent and now senior research fellow in international trade law at Queen Mary College, Dr A. H. Hermann.

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## ARTS

## ARCHITECTURE

## Taste for high Victoriana

Only a few miles from Heathrow Airport is one of the most remarkable and complete examples of Victorian architectural taste in England. Seen above the trees from the A30 a great gathering of towers, roofs and chimneys suggests that Chamberlain has moved across the Channel. Royal Holloway and Bedford New College (it bears this name since a merger in 1985) is now part of the University of London, but it has an interesting history both in architectural and educational terms.

The College was founded by Thomas Holloway (1800-63) who had made his enormous fortune from the sale of his patent pills and ointments that were advertised as a panacea. In 1885 Holloway gave his first great national benefaction, a sanatorium at St Ann's Hill, Virginia Water. For his sanatorium Holloway held a limited competition to find his architect and chose William Henry Crossland from York-shire. Crossland was a pupil of George Gilbert Scott and he was best known for churches and his design (with Scott) for one of the earliest planned industrial estates, Akroyden, outside Halifax.

It is interesting that Crossland's cottages at Akroyden were built in the Gothic style, "to awaken the innate taste of the people for the beautiful in outline." The sanatorium, which was in use until 1981, was richly decorated and described at the time by *The Builder* magazine as "a combination of rich colouring and gilding that is not to be found in any modern building in this country, except in the House of Lords."

Holloway enjoyed indulging his high Victorian taste and when he decided to build a col-

lege for the education of women "of the middle and upper middle classes" he chose Crossland again as his architect. The chateau of the Loire Valley was a clear inspiration and Holloway and his architect spent three weeks at Chamberlain in 1873 measuring "how much of the chateau I wanted for my purpose."

Thomas Holloway was a remarkable man who worked incredibly hard for his fortune and was equally enthusiastic about giving it away. He was a representative of Victorian values and the Royal Holloway College which Queen Victoria formally opened in 1886 is his finest memorial. He was, with his wife, determined to improve the educational conditions for women and he started by building the most comfortable and impressive set of college buildings. His lady students occupied sets of two rooms and enjoyed the facilities of a great library and handsome chapel and dining hall built in the French Renaissance manner around two quadrangles.

It is this great Victorian pile that is now causing the college so much concern. Tonight the council of the college meets to consider and decide how best they can fund the future maintenance and improvement of the Grade I listed buildings.

The college has a secret weapon which it also owes to the foresight and generosity of the founder, Thomas Holloway, in the last three years of his life. He was when in 1881 he started to buy at Christie's, some of the most original pictures of the later 19th century. He bought mainly the work of living artists at high prices with the intention of forming a remarkable collection of Victorian taste. Firth's great "Railway Station," Millais's "The

Princes in the Tower" and the strange and wonderful Land-seer, "Man Proposes, God Disposes" are three of the best known of the collection of 77 pictures that hang in the great Picture Gallery of the college.

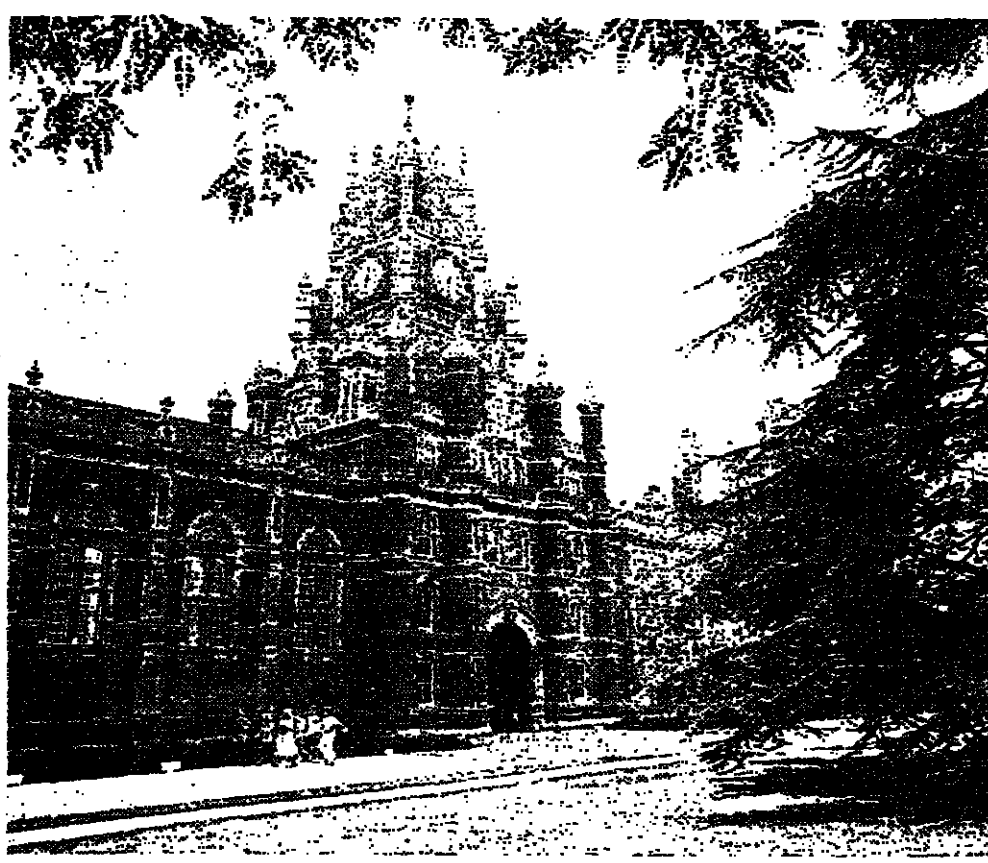
Holloway also acquired some earlier pictures and it is from these that the college is considering selling a Turner and a Constable and to fund the necessary maintenance that will halt the decay and speed the rehabilitation of the college.

Turner's great seascape picture has one of his long narrative titles "Van Tromp going about to please his masters, ships at sea, getting a good wetting." Turner painted four pictures based upon the activities of the great Dutch admiral.

Two of them are in London at the Tate Gallery and the Sir John Soane Museum and the third is in the Wadsworth Atheneum in Hartford, Connecticut. The Constable is a full scale sketch for the "View on the Stour, near Dedham" which he painted in the 1820s.

Art markets are uncertain places but as recently as 1984 a major Turner that had belonged to Lord Clark sold at auction for £7.37m. However, two other good Turners have recently failed to reach their reserve. But the question is not simply how much will these pictures fetch in the market place but whether it is right for the college to sell its artistic patrimony to preserve its architecture.

Selling the family silver to cover the gap left by inadequate state funding of the universities seems far too often to be the only available option for some institutions. It seems wrong that the only way to ensure the future of an historic benefaction is by selling a major part of it. But, as we are



Victorian architectural ebullience is in danger at Royal Holloway and Bedford New College, near Egham in Surrey

regularly told, we have to live in the real world, and Royal Holloway have clearly considered all the possible options open to them before deciding on this course.

Part of the money raised will be used for an endowment fund to maintain the Victorian picture collection. Some of it should also be used to ensure that the great collection is more easily available to the public.

A new Centre for the Study of Victorian Art and Architecture has been established under Professor J. Mordaunt Crook to offer MA and Diploma courses. This centre is being funded by a benefaction from

Christie's. It will be one of the few places in the world where the art and architecture of the Victorian period can be studied alongside such extraordinary examples of both. But the centre depends as much as the rest of the college on some guarantee of the future maintenance of the gargantuan buildings.

The need for funds is urgent and dire. I was very depressed by the condition of much of the interior of the building. The library with its soaring tunnel vault needs immediate refurbishment, and the picture gallery needs a great deal of work to ensure that conservation and lighting standards are met.

The state's reluctance to provide adequate funds for the maintenance of its own museums and galleries makes it unlikely that any special provision will be made for the fabric of Royal Holloway in all its late Victorian decaying splendour.

The need is great: the reluctant sale of the pictures may be the only answer. It is a sorry reflection upon official values that perhaps only art market forces can make it possible to ensure the maintenance of the fabric of this inspired setting for higher education.

Colin Amery

## Ariadne auf Naxos

## COLISEUM

To anyone searching for an ideal performance Ariadne auf Naxos is a "desert island" opera in more ways than one. The delicate balance between artificiality and genuine artistic feelings that Strauss wrought in this piece makes it extremely difficult to stage satisfactorily, while the small scale of the score often leaves it helplessly washed up in a large theatre.

When it was new, this ENO production was given a warm welcome, though that was probably because its disastrous predecessor had sunk without trace.

For the present revival, it has been staged anew by Walter van der Kaaij. But the impression remains of a production that has spent a lot of time working out how to create simple theatrical effects on a tight budget and rather less on the human qualities that make the opera worth doing.

This is a shame, as the company has endeavoured to assemble an interesting cast. The pretext of the opera is to contrast two examples of the "eternal feminine," for any kind of which Strauss had rather a fondness, and the two leading female roles are filled by singers who are winning international reputations.

It is some years since Anne Evans was heard as a promising young Strauss soprano at the Coliseum. Since then she

has scored a notable success in Wagner at Bayreuth and it is good to find her willing to lay down her spear and helmet for a while to return here as Ariadne - a role for which she has the right weight of voice, if not the purity of line and vocal production that the music ideally requires.

In the Zerbinetta of Constantine Hauman she has an attractive companion, though the voice is so light that it is difficult to be sure if it could carry up to the back of the balcony.

There was little sense of a relationship forming between her and Rita Cullis's Composer, a calm and earnest fellow, sung in shining soprano tones rather than the impassioned mezzo we usually hear. But then the Prologue as a whole was rather a mess.

For the rest, Michael Hordern won friends as the Major-Domo and Alan Woodrow hit all of Bachus's top notes with a ringing, bright tone, one possible answer to the perennial problem of the Straussian tenor.

Although the detail of the orchestral score still seems lost to me in a theatre of this size, it was directed with unobtrusive care by Donald Friedman. The surging climax that he brought to the final duet was the best feature of the evening.

Richard Fairman

## London recitals

## PURCELL ROOM/WIGMORE HALL

When the BP Peter Pears Award was held for the first time last year, it laid down a distinctive set of requirements to ensure that the unique musical sympathies of its dedicatee.

By chance there was no tenor in the final and it was the bass-baritone Neal Davies who gave the prizewinner's recital at the Purcell Room last week. In other respects,

though, this young singer may prove to have been an appropriate choice. There is nothing flashy about the way he presents himself in recital; and if at first one feels that he lacks the necessary performer's spark to hold an audience through the evening, he does take the listener gradually into his confidence.

In voice, as in musicianship, he is sure of what he can do. If one is allowed to use the term of a singer from Wales, the voice itself has a quintessentially English sound.

There was nothing in the programme last Thursday where Davies sounded happier than in the "Songs of Travel" by Vaughan Williams or Finzi's "Let us Garlands Bring," for the tone quality and colours of the voice respond naturally to the sort of expression that these composers will have expected to hear in their music.

In Simon Over he has found an accompanist well matched to his own artistic personality.

a fine musician, his qualities modestly put on show.

Between them, they might have found a little to dazzle the ear in Iberia's Don Quixotte songs; and the "Four Serious Songs" by Brahms were also serious in the wrong as well as the right way, a touch stolid in shape. But the musicality they possess will always bring its own rewards.

There was certainly no shortage of dazzling moments in Saturday's recital, given by the violinist Dmitry Sitkovetsky at the Wigmore Hall. This was an evening of genuine brilliance - not so much of a technical kind, though he has that in plenty as well, as in that ability to take a simple musical phrase and invest it with meaning that is given only to the finest musicians of the day.

The Strauss Sonata went with elan; the Schubert Fantasy in C with virtuosity. In the Janacek Sonata Sitkovetsky typically brought an immense concentration to bear, and there were some moments when the playing was so withdrawn that he seemed to bring the music's power from some hidden reserves of deep, inner feeling. Brilliant playing indeed, well supported by Pavel Gililov, who fought his music bravely through some treacherous piano parts.

Richard Fairman

## Lady Windermere's Fan

## THEATRE ROYAL, BRISTOL

Wilde liked to keep an important item of his plot tucked away, so that it would make a better effect when he chose to reveal it.

In this production, one element of what is, after all, a well-known text is transposed to an earlier point in the play in order to give a more convincing quality to what is going on - the revelation that Mrs. Erlynne is Lady Windermere's mother.

This is let slip, quite casually, in Act 2 instead of being saved for Act 4, and it adds extra credibility to Lord Windermere's assurance that "I dare not tell her who this woman is."

Lady Windermere is convinced by the time she has heard of Mrs. Erlynne's behaviour in Lord Darlington's rooms, that Mrs. Erlynne is "a very good woman," and indeed the play is subtitled *A Good Woman*.

Maggie Stead rightly plays her as a woman trying to conquer the touch of vulgarity she has picked up in her fast life. But there is a maternal quality that she is able to switch on, and she will make a decent wife for Alan Bennion's decent Lord Augustus.

Joely Richardson, tall and stately, keeps Lady Windermere's emotions at bay. She is as cold in anger as she is in affection, though the truth is that she is given little opportunity to radiate more than gratitude. Secretly I felt that she would have been better off with Anthony Head's courteous Darlington than with Ian Price's rather grumpy Windermere.

Among the plethora of witty aristocrats that throng the Windermere's rather under-decorated drawing-room, Jenny Lee's handsome Duchess of Berwick might age into Lady Bracknell and have a good deal of ageing before her yet. She is unkind to wish her daughter (Jane Annesley) on to such an exaggeratedly common Australian as Anderson Knight's Hopper.

The wit doesn't sound as witty today as it must have sounded in 1892, but this is a circumstance, not a fault, and Robert Carsen's staging provides a galaxy of wealthy folk in wealthy costumes, who look as if they are being witty out of earshot. This production is nothing if not generous.

Anthony Ward's designs for Carlton House Terrace are lofty and handsome, but parsimonious in furniture, lighting and ornament. Darlington's rooms are walled in with a dark curtain all round, which lifts effectively at the conclusion of the play to reveal the Windermere morning-room underneath.

B.A. Young

## WNO's new season

The Welsh National Opera summer season opens on May 18 at the New Theatre, Cardiff, with a gala performance of *The Barber of Seville* which will be followed by the world premiere of John Metcalf's new opera, *Tornrak*, the next day.

A co-production with the Banff Centre, Canada, and with a libretto by Michael Wilcox, *Tornrak* is WNO's first commissioned opera for a number of years.

Other operas which will be performed this season are revivals of Peter Stein's production of Verdi's *Otello* and Aidan Lang's of Mozart's *Così fan tutte*.

## The Awakening

## HAMPSTEAD THEATRE

Julian Garner, an English writer who has spent the last few years in Norway, appears to have returned from his stay with a duty-free consignment of Nordic gloom. *Awakening* flickers briefly in this dark drama, only to be extinguished by the crushing morality of a society that can forgive but not forget.

His plot centres on a repentant child murderer, released after two debilitating years in solitary confinement through the efforts of a zealous Salvation Army captain. His treatment is ponderously scriptural, backing up tracts of religious teaching with imagery of fishing-nets and communion wine.

In his first act Garner sets an interesting predicament: abandoned to the temptation of sharing a remote island farm with a single woman, is the childlike Johannes going to revert or prove himself entirely remorseful? The passions and the terrors that periodically sweep over him, leaving O'Neill grunting and growling on the ground, make the tension seem real enough.

The second act opens with the shocking revelation that, far from coming to a business-like understanding, Johannes and Unn have shackled up together; moreover, she is carrying his child as if in sacramental replacement of the little life he destroyed.

In doing so, it has entirely changed the ground rules of the play, pushing the focus away from Johannes and Unn to the equivocal figure of Sister Agnes, whose unexpected return to the farm

throws her into a crisis of faith and conscience.

This is intensified when, running from the house of sin, she is confronted in church by a prison warder she earlier reported for mistreating the prisoner, who turns out to be the father of the murdered child.

It is clear by this stage that the real subject of the play is the unlovely Agnes, played with a neurotic frumpiness by Linda Bassett, whose charitable urges have left a trail of unfulfilled obligations. They prevent the distraught father from taking his revenge, and they taunt the reformed "sinner" with an impossible vision of freedom.

Johannes and Unn are separated and abandoned just as Unn was earlier abandoned by Agnes who had appointed herself surrogate mother. "It's not a question of danger," she offers, by way of explanation. "It's a question of public morality."

The trouble with this piece, which is directed by John Dove with an eagle eye for what lies between the lines, is that the characters become somehow proscribed by the gloom to a neat fate. Gabrielle Reddy's Unn is worthy but mirthless, while Agnes pushes a moral dilemma beyond the bounds of sympathy. Even O'Neill, who achieves a fine humanity in the tormented halfwit, struggles hard to prevent his character from being brushed into the shadows.

Claire Armitstead

## D'Oyly Carte Opera Company

## PAVILION, BOURNEMOUTH

You may like your Gilbert and Sullivan straight and Victorian, or daintily fantasised, as with Jonathan Miller's production of *The Mikado* for the English National Opera. But for the worst of all possible worlds, do not miss the coupling of *HMS Pinafore* with *Trial By Jury*, offered by the revived D'Oyly Carte Opera Company in its third annual season, now on a national tour. Taste and comic flair have each taken a beating.

Pointlessly costumed in a mixture of periods from pre-Victorian to nearly modern, *HMS Pinafore* is almost wrecked on a three-tiered set of ugly geometrical construction. From the moment when Captain Corcoran makes his first entrance in a dressing-gown, coffee-cup in hand as he receives the salutations of his crew, this production comes with particular ill-grace from a company so strongly rooted in traditional joyfulness. Andrew Wickes is the director, Russell Craig and Robanna Bryen the designers.

At least, John Pryce-Jones, the company's new music director, ensures that there are compensations both vocal and orchestral. He keeps a tight rein but allows Susan, one of last season's jolliest discoveries, to present a delightful warm-toned

Buttercup.

John Rath as Dick Deadeye is also notable, outstripping most of the other males. A version of the score slightly different from usual expands the role of Hebe (Thora Kerr) by recourse to some early drafts of the work - only proving, as usual, that, when the librettist and composer sharpened and cut by way of revision, they knew what they were doing.

The same director and designers similarly jolt *Trial By Jury* out of its period and into the mid-20th century, robbing the legal satire of nearly all its point. The ultimate vulgarity occurs with the entrance of a "comically pregnant" Angela. In this role, now far too juvenile for her, it is sad to see Sandra Dugdale, formerly one of our spriestest operetta stars.

Strong vocal material is exhibited by Philip Creasy (Defendant), James Meek (Counsel), and Lawrence Richard (Usher), along with what must be one of the weakest portrayals of the Learned Judge ever to figure in a D'Oyly Carte performance.

The musical level under Pryce-Jones may be expected to rise as the tour proceeds, but in dramatic content this double bill is a double disaster.

Arthur Jacobs

## Lisa Stansfield

## Newcastle City Hall

Which famous child of Rochdale has topped the American black soul chart - Gracie Fields, Sir Cyril Smith or Lisa Stansfield? See you do know something about Ms Stansfield, the 24-year-old who has proved that ambition and a love of show business can lead to envying about the stage of the City Hall in Newcastle on a Friday night.

Lisa Stansfield paid her dues on the outer fringes of her profession - she fronted a Saturday morning television children's show in her early teens but few could have predicted the success which has made her the most successful British soul singer since they burned witches.

The competition may not be great - English reticence does not nourish the talent - but Lisa Stansfield has immediately gone global. And so she should. Her voice seems almost artificially programmed for the genre - so deep and blistering it is in the lower reaches when expressing soul sadness; so thrillingly expansive when in the heights of innocent passion. But while her hand - three keyboards, two on percussion, and one bass player - may be anonymous, calculating, sound engineers, happiest in the studio exploiting the latest technology to their commercial ends - Lisa Stansfield seems a genuine real live star.

Now there is the problem of what to do with her. There is the how towards fashion and a Stansfield look - black cap worn wrong way round over short graced-back hair - but

the girl seems too natural to go down that road.

In her stage outfit of jacket and shorts, she was embracing comfort rather than glamour. Her movements are also at odds with mechanised sophistication: she skips and wobbles like a five-year-old let out of school early. No, Lisa Stansfield comes from the down-to-earth, northern common sense school of entertainment, a worthy successor to "Our Gracie."

The music, composed in the band, will be vaguely familiar to anyone who has been near a provincial disco or a local music station in recent months. The songs are, in theory, about love and sex and betrayal, but they actually deliver a strict dancing beat over the most throw away of melodies and are not meant for listening. Just to play safe, the lyrics express reassuring hopes like "Sincerity" and "Mighty love." The fans are mainly young girls.

Soul music rarely bridges the gap between the genuine emotions which are supposed to give it birth and the programmed superficiality of the product. Lisa Stansfield seems to appreciate the problem. Half way through her set she stops gambling, sits on the steps, and really sings. And she sings that most affecting of blues, "Good Morning Heartbreak," really well. But as her chattering audience reminded her, she can't dance to Billie Holiday.

Anthony Thornecroft

April 20-26

## ARTS GUIDE

## MUSIC

## London

English Symphony Orchestra conducted by William Boughton, with Michael Cooke (cello), Perry, Elgar, Dvorak, Vaughan Williams (Mon), Royal Hall (6.58.89).

The Philharmonia conducted by Neeme Järvi, with Yuri Bashmet (viola), Bartok, Walton, Sibelius (Tues), Royal Festival Hall, South Bank Centre

(9.28.8900). The London Philharmonic conducted by Zubin Mehta, with (Tues) Perlman (violin), J.C. Bach, Elgar, Stravinsky (Wed), Royal Festival Hall, South Bank Centre (9.28.8900).

The Philharmonia conducted by Giuseppe Sinopoli, with Reiko Watanabe (violin), Wagner, Paganini, Berlioz (Thurs), Royal Festival Hall, South Bank Centre

Festival Hall, South Bank Centre (9.28.8900).

Paris Cologne Collegium Vocale conducted by W. Fromme, Stockhausen (Mon), Chatelet (4.03.2825).

Ensemble 2e2m conducted by Paul Méfano, Irene Jarsky (soprano), Deprez, Madon, Dureux, Ellason (Tues), Radio France, Grand Auditorium (4.23.0151).

Ensemble Orchestral de Paris conducted by Friedemann Layer, Tatiana Nikolajevna (piano), Martinu, Mozart, Beethoven (Tues), Salle Pleyel (4.03.0387).

Ensemble Mousiques conducted by Christophe Colin, Haydn (Wed), Théâtre des Champs Elysées (4.23.0387).

Orchestre de Paris conducted by Semyon Bychkov, Pascal Moragues (clarinet), Bizet, Brahms, Franck (Wed, Thurs), Salle Pleyel (4.03.0790).

Orchestre National de France conducted by Y. Menuhin, Haydn, Brahms (Thurs), Théâtre des Champs Elysées (4.23.0387).

man premiere by H. Joerns and Beethoven (Wed, Thurs), Philharmonie

Milan Johann Strauss Ensemble conducted by Peter Guth (Tues), Conservatorio G. Verdi (7.00.1755).

Rome Enrico Cacerini (piano), Mozart, Chopin, Liszt and Albaniz (Thurs), Teatro Ghione (6.37.2254).

Madrid Matthias Fletzberger (piano), Beethoven, Schubert (Tues), Auditorio Nacional de Musica (3.37.01.00).

Spanish National Choir conducted by Alberto Blancafort, Rachmaninov (Tues), Auditorio Nacional de Musica (3.37.01.00).

Rosario Torres-Pardo (piano), Prokofiev, Debussy, Gershwin, Stravinsky (Tues), Auditorio Nacional de Musica (3.37.01.00).

Madrid Symphony Orchestra conducted by Max Bragado, with Carmen Gonzalez (soprano), Morales, Liszt, Granados (Wed), Auditorio Nacional de Musica (3.37.01.00).

Soviet RTV Orchestra conducted by Vladimir Fedoseyev, K. Rodin (cello), Vladimir Gritskov (piano), Tchaikovsky programme (Mon), Palau de la Musica Catalana (3.01.59.43).

Wilbert Hazelzet (flute), Jaap ter Linden (viola), Jacques Ogg (harpichord), Bach programme (Tues), Fundacion Caja de Pensiones (3.17.57.57).

Orpheus Chamber Orchestra of New York, Haydn, Shostakovich, Brahms (Thurs), Palau de la Musica Catalana (3.01.59.43).

New York Mieczyslaw Horowitz piano recital, Bach, Schumann, Beethoven Chopin (Mon), Carnegie Hall (3.47.7800).

New York Philharmonic conducted by Leonard Slatkin with Emanuel Ax (piano), Mozart, Bolcom, Tchaikovsky (Tues), Yuri Temirkanov conducted, Shostakovich (Thurs), Avery Fisher Hall, Lincoln Center (3.17.57.00).

Washington National Symphony Orchestra conducted by Lorin Maazel with Yelmin Bronzman (piano), Debussy, Saint-Saens, Franck (Tues), Kennedy Center Concert Hall (4.07.4600).

Chicago Civic Orchestra of Chicago conducted by Michael Morgan, Shred, Zappa, Goldstein, Dhamabutra, Corigliano, Orchestra Hall (4.35.6666).

Tokyo Chicago Symphony Orchestra, conducted by Daniel Barenboim, Brahms, Sinfonia Hall (Mon), Tokyo Bunka Kaikan (2.89.9999).

NHK Symphony Orchestra, conducted by Herbert Blomstedt, Tchaikovsky, Larseon (Tues), Suntory Hall (4.06.1010).

Imogen Cooper (piano), Schubert (Wed), Suntory Hall, Recital Hall (3.33.2242).

Wiener Oktett, Brahms, Mozart, Fux (Wed), Suntory Hall (2.29.9999).

Letia Caberli (soprano), Rossini, Respighi, Berlioz (Thurs) Bunkamura, Orchard Hall (4.03.8011).

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## FINANCIAL TIMES

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## Why Gatt still matters

ONCE UPON a time there was a village without any laws. At last, poverty-stricken and desperate, the villagers asked their scribes what to do. The scribes were, for once, of one mind. They told the villagers to agree on some laws and hire a policeman to enforce them.

The people could agree on the laws, but wanted no policeman. They decided, instead, that an aggrieved villager might take his case before a tribunal of his fellows. This tribunal would then determine both the merits of the case and the appropriate compensation for any transgression.

At first, the villagers kept their new laws. But their heirs grew contemptuous of the feebleness of the sanctions. The stronger realised that their fellows would not dare to act against them. One, seeing others get away with what he deemed outrageous behaviour, started punishing them himself.

Soon gangs appeared in every neighbourhood. New scribes declared the laws dead and hailed the gangs as their proper successors. In a while no villager dared to roam outside his own street: those with no gang of their own starved; and the village grew ever poorer.

Moral: it is not true that people fail to learn from history. They do. But their children forget.

The world is more than a village; the General Agreement on Tariffs and Trade more than a bye-law. As an institution, the Gatt may be a mere shadow of the IMF or the World Bank. But it is, nevertheless, the only international organisation that has supported the progressive integration of the world economy upon which western prosperity has been built.

## Paradoxical trends

The 1980s saw two paradoxical developments. The major developed countries adopted a more market-oriented approach to economic policy. But they also grew increasingly protectionist, notably the US. The free market, it often appears, stops at the border.

Meanwhile, the opposite has been happening in many developing countries and, more recently, former centrally planned economies. Partly because of external pressures, but more often because of the

lesson drawn from their costly attempts at autarky, these countries want freer markets and greater participation in international trade.

Fearing that the erstwhile outsiders are trying to join a club to which its long established members feel ever more indifferent, a group of political and business leaders met last week under the chairmanship of Count Otto Lamsdorf. They warned that "failure to reach a substantial agreement in the Uruguay Round may leave chaos and impoverishment as its legacy."

## Multilateral discipline

This Eminent Persons Group called "on every participant to make substantial compromises in areas of the highest political sensitivity. For the European Community, Japan and a number of other industrialised countries the main concessions will have to be in agriculture; for the US they will have to be in heavily protected areas like textiles and clothing, steel and sugar; but also in a willingness to abandon its purely unilateral pursuit of its trade interests: for developing countries, the most important concessions will lie in acceptance of multilateral discipline in the new areas of services, intellectual property and trade-related investment measures - as well as in willingness to lower what are, in some cases, still extraordinarily high tariffs."

Unhappily, the informal meeting of trade ministers in Mexico that ended this week-end failed to reach agreement on any of these difficult issues. More happily, the ministers seem to have injected political urgency into the process at last, setting July as a firm deadline for agreement on an outline package.

That urgency will be needed, above all in the US, EC and Japan, which account for almost half of world trade (even excluding EC internal trade). These major players will determine whether the prosperity of the global village will continue and whether those who are now clamouring to enter will be able to do so. The leaders have less than eight months to show themselves worthy of an inheritance they have too long taken for granted.

## The rewards of ownership

SINCE Mrs Thatcher's Government embarked on its privatisation programme, the proportion of the adult population owning shares in the United Kingdom has risen from one in 15 to one in four. The trouble with this otherwise impressive statistic is that the great majority of new owners hold shares in no more than one or two companies.

Corporate Affairs Minister Mr John Redwood argued last week at the Institute of Economic Affairs that it was for the City to take the lead in addressing this problem and speed up the process of wider share ownership. In this he differs from the chairman of the International Stock Exchange, Mr Andrew Hugh Smith, who puts the emphasis on changes in government policy. These opposing positions are predictable enough, but they should not pre-empt the basic question: which of the two is right?

The chief problem with the Government's approach to wider share ownership is precisely that it has always been a by-product of the privatisation programme. Ministers have either preferred not to address the more fundamental issues relating to the relative priority accorded to different kinds of ownership, or they have flunked the test, as in the case of the tax reliefs for occupational pensions, when confronted by pressure from powerful interest groups.

The single most important reason why less than 20 per cent of the UK domestic equity market is owned by private individuals lies in fiscal incentives favouring institutional investment over direct ownership. That imbalance has been reduced somewhat since the Tories came to power. But private investors are still net disinvestors in company securities chiefly because the fiscal system favours collective forms of share ownership.

## Housing taxes

Equally important is the tax treatment of housing, where mortgage relief and capital gains tax exemption on the main home have encouraged the British to regard housing as a fail-safe investment as well as a home. The fiscal incentive is scarcely necessary. Natural and planned scarcity

of supply combined with monetary mismanagement by successive governments has anyway ensured that housing has offered both a hedge against inflation and real growth in capital values.

Mr Hugh Smith rightly points out that home ownership is in direct competition with share ownership. And he adds that any shift in the investor's preference from one to the other is likely to require much lower expectations of the return from investment in housing. The return from the council house sale programme, which has helped take the proportion of home ownership in Britain to around 68 per cent - astonishingly high by continental European standards - that is a very unpalatable political nut to grasp. And Mr John Major, the Chancellor, has so far shown little appetite for the task.

## Enterprise culture

Yet it is hard to believe that Britain will ever find its way to a genuine enterprise culture in which equity ownership plays an important part unless the Government is prepared to break this indelible psychology in housing. Nor will it get very far without encouraging greater efforts to educate people on the realities of personal finance. In the absence of such efforts Mr Redwood's attacks on excessive regulation in the City may ultimately rebound on the Government.

Unlike some of his predecessors he has, however, grasped the extent to which the cost of small bargains has become prohibitive since Big Bang. This is partly the result of the elimination of a cross-subsidy by institutional to private investors. And it is a moot point whether the cost of executing small bargains could be reduced by three quarters, as Mr Redwood suggests, by simply by cheaper settlement and further back office computerisation, relocation to docklands and less-costly regulation.

No doubt there is more that the Stock Exchange can do on this score. But the future of wider share ownership lies with broader fiscal and monetary policy. And on that front the grounds for optimism are not, at present, very great.

A discreet notice in the West German business press 10 days ago announced that the first of the new West German-East German joint ventures, proclaimed with great fanfare in January, had been indefinitely delayed. The compact disc manufacturing agreement between the West German company Philips and the East German electronics group Robotron fell foul of local authority planning rules in Suhl, East Germany, where a new plant was to have been built.

The Philips-Robotron failure is representative of a wider disillusionment that has crept into business relations between the two Germans. Many of the thousands of West German businessmen who are still camped out in East Germany's grander hotels are beginning to feel weary and frustrated.

They face a daily struggle with inadequate telecommunications, lack of proper business premises, continuing uncertainty over the legal framework for business and doubts about the permanence of the East German companies with whom they are signing deals.

About 600 joint venture agreements have been signed since January, but they are almost all merely letters of intent, and West German firms can neither hire staff nor start operations with any security. "Nothing has really changed since November last year," said one director of an East German Kombinat (industrial conglomerate) last week.

"The East German bosses are signing deals to try to secure their own futures and the West Germans are doing it mainly for public relations purposes at the moment," says Mr Gonzalo Lopez-Diaz, a senior consultant at the leading West German management consultancy group Roland Berger.

Some even claim that business conditions have deteriorated during East Germany's transitional phase. Mr Guenter Schmitt, boss of West German electronics group Intermetall, says: "There is now nobody in East Germany who can take decisions."

Mr Wolfgang Hensler, who runs a small West German telecommunications firm, would probably concur. At the beginning of December last year he presented a plan to open a subsidiary in Dresden. Production was due to start in July but Mr Geers is still waiting for a definite site.

A period of disillusionment after the euphoria of the first few weeks was inevitable. Moreover now that there is a legitimate government in East Berlin the legal confusion should be sorted out before the D-Mark is introduced at the beginning of July, a factor which will also make life a great deal easier for West German bankers and businessmen.

But some West German business leaders sense deeper reservations setting in. Mr Detlev Rohwedder, chief executive of steel and capital goods group Hoesch, says: "The West German politicians believe that they merely have to set the framework conditions and private capital will flow in and rebuild the country. It is not clear that such optimism is justified. The whole thing may be much more complicated than the politicians anticipated."

West Germany's five economic institutes have predicted a DM35bn (£12.7bn) to DM40bn orders boost for West German industry next year as a result of economic union. That represents mainly exports of consumer, investment and infrastructure goods to East Germany rather than "inward" investment.

Many trading and service companies, like retailers Hertie and Edeka, do have definite takeover plans and the big banks will leave their pre-fabs and caravans as soon as they are allowed to take over the East German banking system. (Deutsche Bank last week began the takeover with its purchase of Deutsche Kreditbank.) But

## Long distance running

■ It was hard not to feel sorry for the BBC - and Allister Hutton, the winner of the men's race - yesterday after TV coverage of the London Marathon had been reduced to two minutes, ten minutes and twenty seconds by overcast cloud. It is a sobering thought - it was breakfast time - that in the electronic 1990s the BBC could reach no higher than the top of the mast of the Cutty Sark, which pre-dates John Lennon by half a century, for a decent picture of the race.

This is not the real reason for disappointment, however. The deeper suspicion is that the BBC does not quite understand the beauty of competitive marathon running as a television sport. This is surprising, given the hours devoted to snooker, the metropolitan appeal of which is not dissimilar and which is equally likely to induce a severe case of brain rot, albeit often welcome on a Sunday morning or late at night.

Admittedly, 99.99 per cent of the 34,000 taking part in the London marathon were not in to win and many were running for good causes. But the weighting of coverage against those setting the pace does reduce its appeal as a contest.

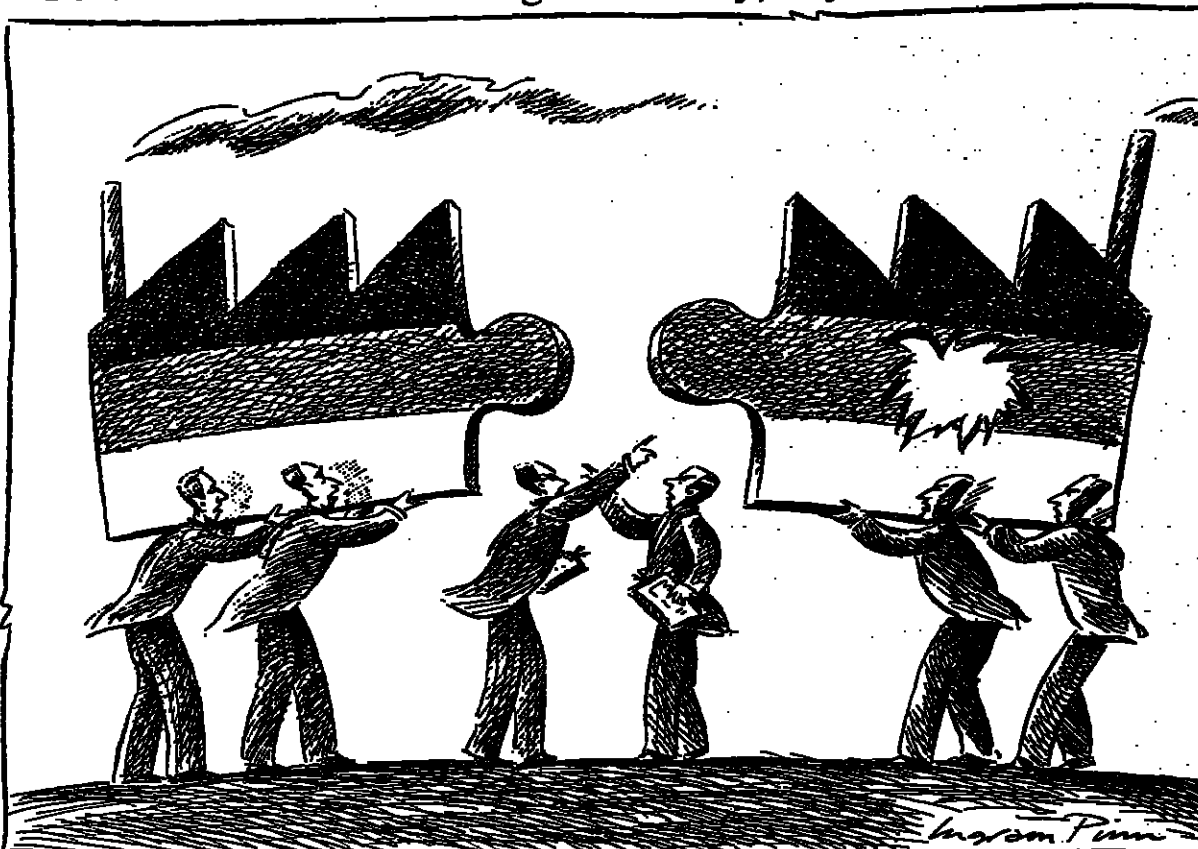
As in so many cases, the Japanese understand, and do it better, further confirmation of the fact that they are good at taking the long view.

Throughout spring, when the weather is temperate and before baseball has begun to bite, Japanese television is consumed by marathons. The cameras are not only on the really big ones - the Tokyo and Osaka races, the Nagoya women's marathon - but also contests for geriatrics, vegetarians and left-handed chopstick wielders (not many entrants) and even more relays.

Each and every one focuses on who is leading. There are frequent time splits, measure-

## The better part of valour

After early euphoria about opportunities in the East, West German business is acting cautiously, says David Goodhart



manufacturers seem much more cautious.

BASF, the chemical giant, has announced that it can supply East Germany's needs from existing plants and has no present intention of manufacturing in the country. Similar announcements have come from Grundig and Blaupunkt and the West German Textile Association. And manufacturers who do intend to produce from East Germany will probably want to build their own plants from scratch rather than take over existing businesses.

"Apart from the car industry there has been little definite commitment on the part of manufacturers to take

**'East German bosses are signing deals to try to secure their futures; the West Germans mainly for public relations'**

over and renovate the Kombinate," says Mr Rohwedder. When legal and currency uncertainties have been resolved large chunks of the least productive sectors of East German industry will find themselves without their former customers and lacking West German suppliers too.

"There will be cherry-picking by the West," says Mr Ulli Pfeiffer, head of the Empirica Consultancy. "But nobody will want the chemical industry or the hopelessly backward consumer electronics industry. That means for a transitional period we will probably have 6 or 6 per cent growth per year along with 15 per cent unemployment."

Even a star of East German indus-

try like Robotron has little to offer in technology or productive capacity. But it can offer its service network and, in common with most East German companies, its excellent trade relations with the Soviet Union and eastern Europe, according to Mr Lopez-Diaz.

The lack of shareholder pressure on West German industry means that it may be able to put patriotism before profits for a few years - especially with political prodding and generous tax breaks from Bonn.

Mr Herbert Hensler, chairman of McKinsey Germany, reckons that in 10 years time East Germany will boast world leaders in optics, printing machinery and porcelain (its current strengths). Between 50 and 70 of the existing Kombinate will, with the help of Western partners, be efficient performers on the world market. A further 50 Kombinate will have survived in some form through their own restructuring efforts and 20 or 30 will have closed down.

However the medium-term outlook for East-West German business remains, at best, rather more complex than it seemed at the start of the year. And even after the introduction of proper business and employment laws West German big business may not enjoy quite the freedom it had expected.

For one thing Mr Wolfgang Korte, head of the West German Cartel Office, has already served notice that he will be taking a hard anti-monopoly line in East-West German deals. There are also fears that the structure of privatisation in East Germany could hand too much power to employees and that the trade unions will stop the market setting wage rates.

The ownership of industry is now

being transferred to a national trust body, and by the middle of the year most of the state-owned groups will have been broken up and transformed into limited or public companies.

The current plan is that part of their capital - probably about 30 per cent - will then be transferred to a fund which will hold in trust interest-paying corporate bonds on behalf of every East German citizen. By the middle of the 1990s, it will be possible to value and distribute these bonds, although there remains some argument about whether citizens will have to pay something for them. The remaining 70 per cent will, where the demand exists, be sold at once to pri-

**The structure of West German industry means it can afford to put patriotism before profits for a few years**

ate investors: West Germans or foreigners.

However there is a competing model, promoted by the East German IG Metall engineering union with the backing of its West German sister organisation, which would give workers in particular companies 75 per cent of the capital and thus a veto over management decisions.

This may not catch on but West German business is starting to worry, none the less, that the West German unions are belatedly moving in to support their East German counterparts, and in some cases effectively taking them over.

There is concern that this may have an effect on wage levels. Businessmen

had been largely indifferent to the heated debate about whether wages should be converted into D-Marks at one to one or two to one. They have argued that the market will very soon set highly differentiated pay rates.

"But strong unions controlling wages could hold back the take-off," says one business leader. The unions in both Germany will also do their best to block a pro-business reform of the East German trade union law, which bans lock-outs and gives the unions more power than in the West.

That could be a further disincentive to a fundamental redirection of West German company strategies away from an emphasis on EC integration and towards East Germany. According to a poll conducted by the Frankfurter Allgemeine Zeitung, most large companies outside the retail sector have never had any intention of rethinking their plans on account of East Germany.

Mr Wolfgang Zimmermann, board member of Heidelberg Druckmaschinen, world market leader in sheet-fed off-set printing presses, says: "Even when East Germany is fully open it will represent only 5 per cent of the EC market. Companies would be badly advised to abandon the remaining 95 per cent for that 5 per cent."

In the context of future European markets, says Mr Edzard Reuter, chairman of Daimler-Benz, "East Germany is a side issue but an important one."

The diversified energy group RWE is better placed than most to benefit from infrastructural spending in East Germany, but Mr Friedhelm Gieske, chief executive, also stresses continuing expansion elsewhere in Europe.

RWE, like most large companies, has established a new East German committee, although unlike many other companies it is not chaired by a board member. "But an East German committee does not mean we are going to be distracted from our basic strategy," says Gieske.

Deutsche Bank reports a certain "go East" pioneer spirit especially among younger executives trying to make a name for themselves or older men wanting to crown their careers. But the bank also points out that one day after a presentation at last month's Leipzig fair it fielded five full board members for a press conference at its Luxembourg subsidiary, far more than appeared in Leipzig.

Many small and medium-sized companies, members of West Germany's backbone of Mittelstand businesses, will be more affected by a re-orientation towards East Germany. Analysts like Lopez-Diaz believe the expansion of the East German Mittelstand is crucial for industrial take-off and to help soak up the unemployment created by the collapsing Kombinate.

He warns, however, that takeovers of existing small firms in East Germany could be dogged by legal uncertainty over ownership claims. Most of West Germany's bigger companies, like Daimler-Benz, have renounced any claim to those large East German enterprises which they once owned. But people in West and East Germany who have family claims on small businesses may not be so magnanimous.

East Germany does have a few entrepreneurs of its own. One of them, the manager of a small toy firm, claimed at a conference last week that he could quite quickly become competitive with the West German competition. However he needed to hire West German designers to produce a new range.

He reckons he needs about 18 months to get his business fit to compete, but wonders if West German bankers will give him that chance. He is not the only one. It is going to be a bumpy 18 months for most of East German industry and the corporate big brother next door may not be quite as generous or committed as hoped.

## OBSERVER

ments of stride patterns and breathing rhythms. The viewer can contentedly count the seconds between runners as they cross markings on the road. It makes for magnetic, and strangely soothing, watching and clearly explains why the Japanese approach work on Monday mornings revived in spirit, if not in body.

## Stilled Walters

■ A contest of even longer duration than the average marathon has been that between Nigel Lawson and Alan Walters. Consistent with our leit-motif of the day, attention must be drawn to a singularly interesting footnote. Could it be that tucked away in the bibliography of Gordon Pepper's latest monograph on "Money, credit and inflation," is a defeat for the Prime Minister's former economic adviser?

It is no secret that Treasury officials have been hearing the worst about Sir Alan's planned book on economic policy in the years before he and Lawson resigned last October. Rumour had it that the book, to be published soon by Collins and the free market Institute of Economic Affairs, would be entitled "The economic consequences of Nigel Lawson" and be unsparing in its criticism of the former Chancellor.

However, Alan Walters, the bibliographer of Prof Pepper's work refers the reader instead to a forthcoming book from Collins/IEA with the altogether blander title of "Sterling and Inflation in the Eighties". The IEA last week dismissed suggestions that Sir Alan had been nobbled by Whitehall and forced to tone down his version. The Institute's Graham Mather insisted that nothing was holding up publication.

However, Whitehall officials said that the book would certainly have been vetted by Number 10 Downing Street.



"Don't blame me - blame BT's excessive profit margins."

Mrs Thatcher may be less than appreciative of the legacy of the Lawson years, but would profit little from a further opening of old wounds.

## Tape measures

■ The first marathon was a Greek affair. The longest contemporary European one is about the delineation of borders, but France and Luxembourg are showing it can be resolved peacefully. They are about to redraw a bit of theirs, so as to avoid any misunderstandings afflicting disoriented motorists on a stretch of road that could belong to either.

This began when Arbed, the Luxembourg steelmaker, built an access road from one of its plants to the nearby town of Dudelange, also in Luxembourg, passing a rather wrinkle bit of the common border on the way. Three years ago the local authorities decided to open it as a Luxembourg public highway.

Whereupon the French wondered how its civil and criminal liability laws could be

applied in the case of a road accident that took place on a Luxembourg road in France. Pragmatically, Luxembourg suggested swapping equivalent parcels of land so that Arbed's road could stay in the Grand Duchy all the way. Since neither bit of land was inhabited, France agreed, and so shortly it will come to pass.

But the precedent could go too far, at least if applied to another, much loved, stretch of road not far away. At Martelage, straddling Belgium and Luxembourg, the border runs straight down the middle of the main street. There is not much on the Belgian pavement, but the light grey Luxembourg side is a glittering row of duty-free shops, bureaux de changes and cheap petrol stations, much patronised, at least until 1992, by Eurocrats and their coterie.

## Shaggy fish

■ After a fishing marathon all he had was a small salmon. He was about to kill it when the salmon said: "Wait, I'm too small." "Good Heavens, a talking salmon! What's your name?" "Rusty," said the salmon. "Throw me back in the sea." The fisherman threw the salmon in the sea and went home. About a year later he was fishing in the same spot, when a big fish took the bait. "At last, a decent-sized salmon," he said about to hit it on the head. Again the salmon spoke: "Hey, I'm your old friend Rusty." "Amazing," said the fisherman, "what have you been doing?" "Sitting on the deck of the Titanic writing poetry," the salmon replied. "Here, look at this." The fisherman took the poems, and was impressed. "These should be published," he said, "but what about a title?" After some thought, the fish said: "How about *Salmon Rusty's Titanic Verses*?"

Only JAL have 17 flights a week from Europe to Japan.

**JAL**  
Japan Airlines

Jurek Martin



"THIS IS A boring report; but that is probably not a bad thing." Only 10 days ago this seemed an apt conclusion for a Wall Street analyst to draw from the US economic statistics. Under the surface, it is true, the trends looked rather less steady (and less favourable); but their tale of profits squeeze, threatened recession and rising bankruptcies was familiar enough to be boring too. Not even recurrent scares about a possible Japanese retreat from the US markets could keep readers awake for long.

Last week, though, news broke, though there was some dispute about what it was, "inflation heats up, chills markets." Japanese sell-off rocks bonds. There is in principle no contradiction here, since bad news about inflation might well frighten Japanese fund managers; but the reported Japanese retreat began two days before the inflation figures were published.

It is possible, then, that the inflation figures were made to look worse than they really were by the market fall, which brought the long bond down 3 per cent and blue chip equities down 2 per cent during the week. Commentators can seldom resist explaining market movements in terms of any suitable news.

This certainly appears to be the view of the country's most senior economy-watcher, Mr Alan Greenspan, the Federal Reserve Chairman. In written evidence to a Senate committee two days after the consumer price news, his only remarks about inflation were these: "The central tendency of the Federal Open Market Committee forecasts suggests that most members are of the view that some progress toward lower consumer price index inflation can be achieved this year without a sizable rise in the unemployment rate."

The bulk of his statement was concerned with risks in the commercial credit market which could easily cause a sizable rise in unemployment. This suggests that the market and the commentators may have been dwelling on the wrong sort of bad news.

First, however, the headline news of rising inflation and an improving trade balance must be analysed briefly. The trade figures were indeed, unexpectedly good, and might have caused more celebration if the market had been going up. In a weak market, they were treated as an aberration.

This is also the official reading: the Treasury, by co-incidence, marked the news with a warning that the trade balance might now get worse. At the same time the Department of Commerce issued the first official forecast of the benefit which US trade is likely to enjoy from the build-up of Japanese car production on-shore - \$15bn annually by the end of next year. Some of the improvement last year is clearly from this source, so there may

Anthony Harris finds rather more to worry about in the long-term US economic outlook than in the present

## First the good news then the bad

be some good news to come which did not get into the Treasury computer model. It will not mean much for growth, though.

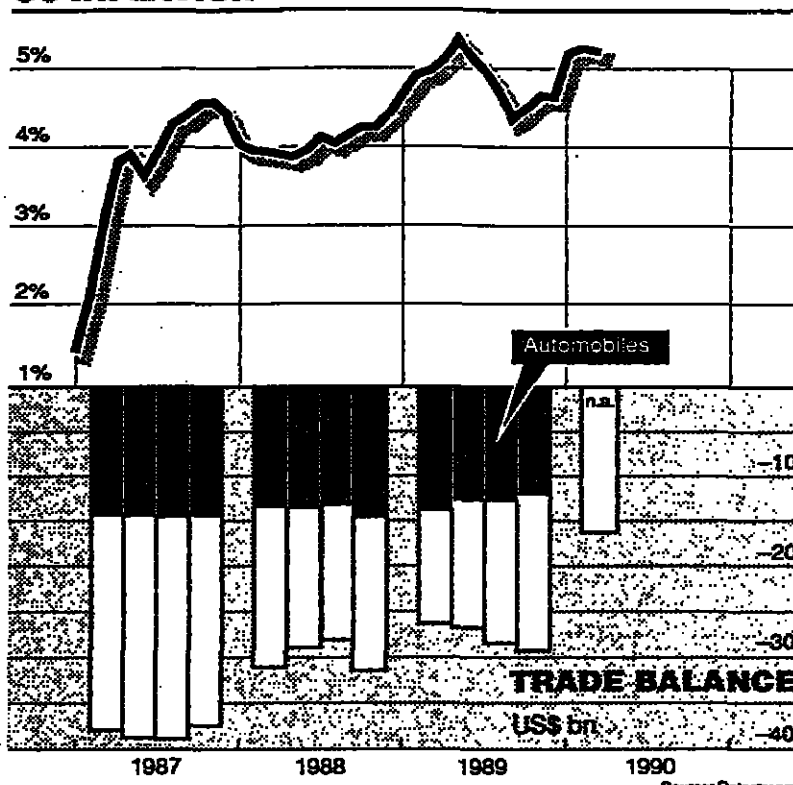
The inflation story is a tale of 0.3 per cent - the difference between the actual 0.5 per cent rise in the index in February and the 0.2 increase which market economists had forecast. This was partly over-optimism about food and energy; analysts had expected the oil industry to trim product prices rather more promptly than they did in response to falling crude oil prices. They also seem to have underestimated the effect of the continuing drought in California, which is the major source of fresh produce in US food stores at this time of year.

However, it was the level of "core inflation" - all items less food and energy - which attracted the grimmest comments. This reached an annual rate of 7.5 per cent in the first quarter, after rising at 4 to 4.5 per cent for the previous six years. About a third of the unexpected 0.3 per cent March price rise, was due to one item: women's clothing. The apparel index rose 4.9 per cent in two months, after rising just 0.2 per cent in the previous 10 months together.

The clothing price rise could well be regarded as sinister. Indeed there is some sign that the industry is trying to take advantage of quota protection, but it has all happened before. There have been at least three fashion price scares since the ministerial disaster of 1987-88, when the industry found it had misjudged its market. All three faded away as prices relaxed with the first sales, and stayed down. In the last year a number of well-known names have vanished into bankruptcy, the survivors appear to be trying again.

This sign of desperation in a hard-pressed industry could have wider application. After-tax profits in manufacturing fell by nearly a quarter in the year to end-1989 in the official figures, which unfortunately include profits from asset sales - a major factor in a year of LBO restructuring. Some sectors of retailing, and some services, notably airlines (and recently restaurants) have suffered worse. There have been consumer complaints that domestic air fares have risen steeply as hard times have thinned the competitive field. These fare increases often fail to stick. Similar news may well be heard before long in furniture retailing, which has recently had a high casualty rate. So

US INFLATION



far as this is true, recent inflation is a lagged response to cost rises long ago. Time may work a cure; tighter monetary policy might make things worse.

How widespread is such distress, and is it likely to spread? The evidence is mixed, but not encouraging. On the positive side, US businesses plan to increase their plant and equipment spending 7.8 per cent in 1990, following a 10.4 per cent actual rise in 1989. This is a slowdown (and performance is usually short of stated plans), but still enough to sustain some growth in the economy. If the trade balance continues to improve - despite the Treasury forecast - that would be another bull point. Unfortunately the list of bear points is longer.

Construction is facing generally very weak demand. Housebuilding is slowing down from its brief spurt in a tropical January. Permits for future starts in March were 8 per cent down on February, and the lowest monthly total for seven years. The cause seems to be as much demographic as a

result of high interest rates; the whole house market is now extremely sluggish. Commercial building seems to be heading for a major pause, the result of past over-building, and bank finance for new projects has virtually dried up in many regions.

Public spending, especially at State level and in defence, is being increasingly squeezed. Most US states operate on balanced-budget rules. These are economically destabilising because they require expenditure cuts or tax increases when other activity is slowing. There is plenty of anecdotal evidence of this in the Metro section of almost any daily newspaper. Aggregate figures are hard to come by until long after the event.

On the national level the Gramm-Rudman rules could have a similar effect. Last week Budget Director Richard Darman said that Congress should be looking for a further \$8.5bn in cuts on top of the \$360n requested by the President to compensate for the economic slowdown. The cuts, of

course, are for the year starting in October, but the effects are already being anticipated in areas like the Washington which have a large government market.

The savings and loan crisis will have a cumulatively deflationary effect as growing sums of revenue are diverted from goods and services to maintaining interest payments on insured deposits, or on the money borrowed to pay them off.

Credit demand is weak; supply is constrained by heightened appreciation of risk. The banks are also playing a destabilising role. Mr Greenspan, reporting to the Senate on the result of a survey of major banks, said: "During the past six months a large majority of respondents had become less willing to make construction loans, while about one-fifth were less willing to extend business credit. Generally, they cited less favourable economic conditions as the most important factor leading to their policy change."

Mr Greenspan said that this might have "potential effects on the level of local economic activity," a characteristically restrained description of what could be the most potent deflator of all. Meanwhile, borrowers seem to be imposing their own restraints. There was virtually no loan growth in December or January, but an annualised increase of 5.3 per cent in February. The monthly average for 1989 was 7.6 per cent.

The Chairman went on to show why things might get worse as a result of the collapse of the junk bond market. The loss of liquidity will directly affect the ability of highly leveraged companies to refinance their debts, and may prevent them selling assets to pay them off, since many of the buyers have themselves fallen on junk bond finance. This sounds like what the London market used to call "pig on pork."

Personal spending has been subdued, and seems likely to remain too weak to lead a recovery, despite a reported revival in confidence. Persistent pessimism - and stale pessimism - still talk of consumer-led growth.

There is precious little evidence to back them. The picture is typical of a weak outlook, with weak sales of cars and durables, and some of the money saved spilling over into clothes and other non-durables. Total retail sales in the first quarter were 5.5 per cent up on 1989; prices were up 5.2 per cent. Meanwhile previously sceptical academics have agreed with some market economists that private saving is likely to go on rising for the time being for purely demographic reasons. In short, the reasons which supported recession forecasts at the turn of the year are still in place, and of almost any daily newspaper. Aggregate figures are hard to come by until long after the event.

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## LOMBARD

### No philosopher's monetary stone

By Samuel Brittan

THE inclination of interventionists and would-be economic planners to find a clever way round high interest rates - by credit controls, for example - is understandable. But unfortunately the dislike of market-clearing prices extends to people who believe they are monetarists and support a market economy.

These reflections are brought to mind by a new and valuable research monograph by Professor Gordon Pepper (Money, Credit and Inflation, Institute of Economic Affairs, 26.95). Unfortunately the monograph may comfort all those fair-weather supporters of the counterfactual who believe that some improvement in Bank of England techniques would remove the need for high interest rates - as well as improving the Government's standing in the polls.

This is a pity. For, despite the ritual attack on the shadowing of the Mark, Pepper's monograph dispels many illusions. For instance, broad money and credit cannot be followed as an automatic target because of variations in the demand for money held for savings purposes. Never the less, "lending by banks and building societies was an extremely important reason for excessive monetary growth in recent years."

Moreover, contrary to what Mrs. Thatcher thought when she intervened to uncap sterling in March 1988, "foreign exchange intervention also had little direct impact, because it was completely sterilised." What then did go wrong? The supply of broad money and credit has been demand-determined ever since the end of credit ceilings. So one can point the finger at almost any development one likes. There was financial liberalisation which made it far easier to borrow. There were the tax privileges of home owners, which boosted the effects of financial liberalisation. Above all there were the planning controls which boosted property values, and increased the apparent wealth of the personal sector. Alternatively, one can accept all these structural forces as given and blame the Bank and Treasury for not having main-

tained higher interest rates.

Prof Pepper believes, however that the key to better performance lies in the rate of growth of the Bank of England's own balance sheet, "which should be agreed annually with the Treasury." This would stop the Bank of England from providing unlimited liquidity to the financial system. The untutored reader will suppose that he has found his free lunch; and Pepper encourages him by pouring scorn on the ability of interest rates to limit bank lending.

Although the monograph is crammed with useful tables and charts, there is none of the Bank of England's balance sheet. The argument appears to be that if there were a ceiling on the assets of the Banking Department, the strain would be taken by the £1.6bn of bankers' deposits, which are regarded as the base of the banking system. In fact most of the £1.6bn consists of compulsory deposits, which serve no monetary purpose, but are there to provide the Bank of England with an income. To use the remainder for monetary control would be like balancing an elephant on the back of a tortoise.

But even if this difficulty could be overcome by higher compulsory reserve ratios (to name another fashionable nostrum) we would be far from home and dry. For how would the banks ration the demand for credit? As neither Pepper nor the IEA favour quantitative controls such as advances ceilings, we are back to high interest rates. This is not mere *a priori* reasoning. In the nearest approach yet seen to monetary base control in the US, three months Eurodollar rates exceeded 21 per cent at the end of 1980, and hovered at around 18 per cent for much of 1981.

There are arguments for targeting the exchange rate, some measure of money, Nominal GDP, prices directly, or some combination. But whatever one's preferred intermediate objective, it is wrong to give the impression that monetary growth can be contained and inflation controlled without politically unpopular levels of interest rates. The trick cannot be accomplished.

## LETTERS

### Why the maple leaf may not wither after all

From Mr John Hayes

Sir, David Owen's report on the threat to Canada's unity ("A withering maple leaf," April 10) shows he is well informed about the current debate, but I think both he and some of the major players give insufficient weight to "the ties that bind."

Canadians will not watch with equanimity the dismantling of a country that provides through its legislation and traditions a degree of social justice unmatched in either the US or the UK. Canada even has a government-funded health service that works.

One reason for the social justice is the help the federal level

gives to the provinces with weaker tax bases. Not only the smaller provinces have benefited but Quebec too. The unwillingness of three provinces to ratify the Meech Lake accord on the constitution reflects concern to maintain federal fiscal and legislative capacity.

The federal union provides economic stability and political guarantees for all provinces. Canadians, including Quebecers, will think twice about seceding themselves to an independent provincial government with no federal counterbalance.

The union gives Canadians greater negotiating power vis-

à-vis the US than they would have as individual provinces.

And one should not underestimate the attachment that Canadians have to their country. They do not wave the flag, but they are justifiably proud of Canada, and it is simplistic to say it is a country where regional and not national loyalties hold sway.

It may be broadly true of Quebec and of recently arrived (1949) Newfoundland. But Newfoundland is too poor to secede, and one of Canada's most memorable "Canadians" (Dieffenbaker) came from the very regional west.

Canada has its regional tensions and Britain its polarised

politics. Without too much ingenuity one could construct a plausible but one-sided argument that Britain is in danger of social disintegration. While disintegration could happen both in Britain and in Canada, the chances are that it will not because in both countries the process of political accommodation has been alive and flourishing for generations, which can be said of only about a dozen countries.

John Hayes, Research director for the special Joint Committee on Senate Reform 1983/84, 9 Northlands House, Solihull Road, Chichester, Sussex

### Heathrow's need for a rail link

From Mr D.M.G. King

Sir, In his article "Privatised companies face new pressures," April 17 Charles Leadbeater comments on limitations to airport capacity in the south-east and the standard of transport links to Heathrow.

This overlooks the fact that after the opening of the £400m terminal at Stansted in March 1991, the BAA will have opened three new terminals in the south-east in a span of five years, an achievement unsurpassed by any other airport system in the world.

It is true that Heathrow needs a rail link and that is why we are promoting a Bill in Parliament with British Rail to provide a non-stop train service between Heathrow and Paddington in early 1994 with a 16-minute connection every quarter of an hour.

This £235m project will be financed 80 per cent by BAA, a perfect example of how privatisation creates opportunities since we are now able to borrow money on the open market.

We hope for early parliamentary approval for this much needed project so that we can enhance the level of customer service with interiors specially designed for the air traveller and with an environmentally friendly tunnel under the M4.

All this is part of a £2bn investment programme to meet the needs of our customers. We have worked hard to become the world's leading international airport group and fully intend to keep it that way.

D.M.G. King, Managing Director, Airports Division, BAA, 180 Wilton Road, SW1

### More power to the mayor

From Mr Dennis Maggs

Sir, Your editorial comment ("After the poll tax," April 9), raises the question of the role of local government and the factors that should be examined carefully before any Government enacts major changes to funding arrangements.

You speak of electing mayors direct, as happens in other countries of the European Community. As mayor of Dorchester, I am very conscious of my ceremonial role, but feel the lack of any real power, compared with the mayors of our twin towns in France and West Germany.

The European Commissioners are about to change the rules concerning the bottling of wine, making it a requirement that this must be done at source and nowhere else. Our brewery in Dorchester, bottles enormous quantities of French

wine, but if the new rules come into force, this will no longer be possible and many local jobs will be lost.

I have no doubt that the mayors of those towns and communes in France that would benefit from these new rules have been bending the ear of the appropriate Commissioner and will be listened to with respect. We in this country are not used to acting in this way and do not have the clout to do so.

This situation I am sure can be translated into many other areas and unless we adapt to the continental style, as regards the role and executive power of English mayors, I am certain we will lose out as a people, particularly after 1992.

Dennis Maggs, Mayor's Parlour, 19 North Square, Dorchester, Dorset

### The Ramsey pricing system and justifiable subsidies

From Mr David Savers

Sir, Mr Schimmelpenninck (Letters, April 4) misrepresents the reasoning behind Ramsey prices, the pricing system advocated by economists for industries in which marginal costs are lower than average costs, when he suggests that it is only efficient when subsidisation is not approved and first-best pricing (marginal cost pricing) is not considered an alternative.

Ramsey pricing has, in fact, been advocated because the need to finance subsidies through taxation makes "first-best" pricing unattainable. William Baumol and David

Bradford wrote (American Economic Review, June 1970): "In a world in which marginal cost pricing without excise or income taxes is normally not feasible the solution we have usually considered to characterise the 'best' is none too good, because it is simply unattainable."

They therefore advocated the Ramsey pricing theorem, suggesting that "systematic deviations between prices and marginal costs may be truly optimal because they constitute the best we can do within the limitations imposed by normal economic circumstances." This theorem showed that the

optimal system was one which minimised the divergence of consumption from that which would be produced by marginal cost pricing; and that this result was produced by charging more than marginal cost to those consumers who showed the lowest price-elasticity of demand.

In saying that subsidies are only justifiable if they produce benefits to the community as a whole, not just to the consumers of the subsidised service, I am arguing that subsidies should produce substantial benefits for the objectives of society, in the terminology of welfare economics, they would

be justifiable if the beneficiaries could compensate the losers.

Discussions about optimal pricing systems and the case for subsidies should acknowledge that the potential efficiency losses through the effect of subsidies on the motivation of staff are far greater than the efficiency gains which could be achieved through optimal pricing. The condition of eastern Europe demonstrates the cost of subsidies.

David Savers, Crosby, 10 Seaview Avenue, Angmering-on-Sea, Littlehampton, Sussex

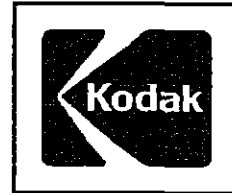


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# FINANCIAL TIMES COMPANIES & MARKETS

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Monday April 23 1990

## INSIDE

### Spain gives Banesto a timely tax gift

The Spanish Government has made Banco Espanol de Credito (Banesto) a tax gift of Ptas19.2bn (\$180.4m) (£110m) to help the bank merge its industrial and financial services interests into one unit. The new group will account for just over 1 per cent of Spain's gross domestic product and easily become the country's largest private sector industrial group, reports Peter Bruce. **Page 27**

### Investors loyal to the last

Molins, the cigarette machinery and packaging group, seems to inspire a peculiar loyalty in its investors. Since 1985 shareholders have resisted five attempts, including increased offers, by outside bidders to take over their company. Andrew Hill talks to Michael Wright, managing director of Molins (left), about the latest hostile attempt — a £76m (\$124m) cash offer from the publicly-traded US group Leucadia National Corporation. **Page 30**

### Industry goes soft

Throughout manufacturing industry, software is starting to assume greater importance at the expense of hardware. Not just in computers, but also in cars, consumer electronics, telecommunications. This means, argues Charles Leadbeater in the Business Column, that companies will have to change the way they manage. **Page Back Page**

### Anglo American

Gavin Reilly, mentioned in this column on Friday as head of Anglo American Corporation, retired as chairman on March 31. He was succeeded by Mr Julian Ogilvie Thompson.

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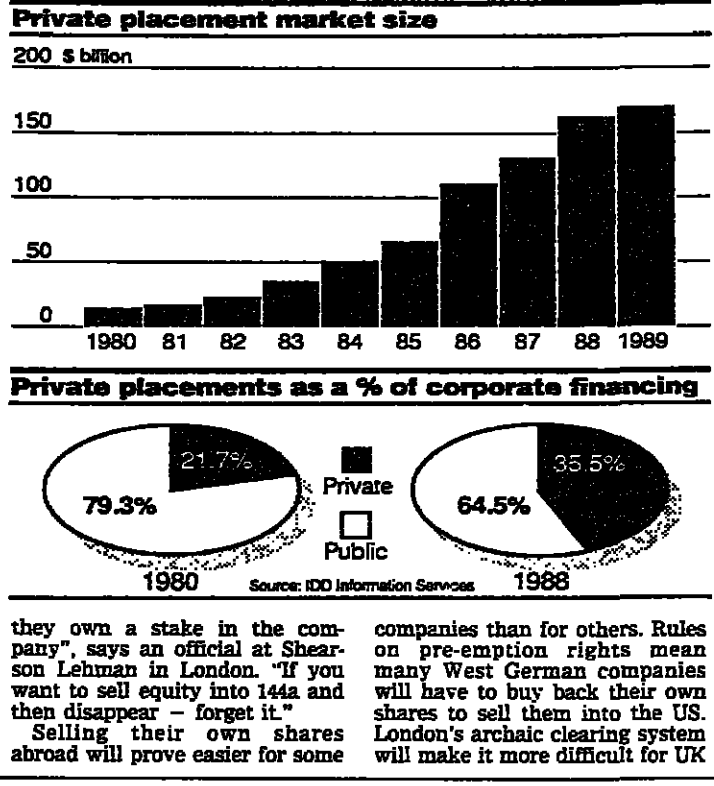
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## Magic ingredient for an outdated market

Janet Bush, Stephen Fidler and Deborah Hargreaves look at ruling which may alter US public securities trading

THE PACKAGE of rule changes passed by the Securities and Exchange Commission on Thursday could change the face of the US financial marketplace. Hailed by some as the most significant change in US securities laws since the 1930s, the long-awaited measures — which come into effect this week — will provide a competitive boost to the US financial markets. They will make it much easier for foreign companies to tap US sources of capital without subjecting themselves to the onerous registration requirements of the SEC, the securities industry regulator. They will also provide a further spur to growth in the market for private placements, where securities are sold to big US institutional investors on the basis that they cannot be sold to the public at large. Even without the new rules, the market has expanded every year over the last decade, from \$15.5bn in new issues in 1980 to \$170bn last year. That could grow, according to some predictions, to \$250bn this year, surpassing the Eurobond market. The new Rule 144a abolishes restrictions which prevented the



companies to place shares in the US through Form 144. But in some areas, particularly in continental Europe, the impact could be large as US investors want to benefit from the single market in 1992. The spur for the SEC actions were summed last Thursday by Mr Richard Breeden, the SEC chairman. "These rules will have a profound and beneficial effect on the ability of issuers to raise capital in the context of today's global marketplace and enhance the competitiveness of our domestic market. The result should be a lower cost of capital in our markets." Many Wall Street firms are euphoric about the prospect of what they see as a lucrative market. But there are others who believe that the rule will make it easier for institutions to ignore Wall Street by accelerating the trend for issuers to sell securities directly to these investors. The SEC conceded to established exchanges that it will not allow the private placement of listed securities. But an efficient private placement market will allow institutions to sidestep the public markets more easily. James H. Coxon, senior vice president at Cigna Investments, which manages \$66bn of assets — almost \$10bn of which are in privately-placed securities — says that institutions welcome the changes in part because they have grown disaffected with the public markets and with Wall Street securities houses. Servicing institutional clients has become a small part of the business of many on Wall Street, who are seen as manipulating the public markets through index-arbitrage and other techniques that have added to volatility. Their "merchant banking" strategies have shrunk the public markets as leveraged buy-outs took companies private, and stock market volatility has encouraged those companies that remained to buy back their own shares. This is perceived as damaging the access of American business to capital. Like small investors, investment institutions are disenchanted with the public share markets. Unlike them, they can do something about it. By giving a spur to the private placement market and establishing it as real competition to the public exchanges, the new rules could be the catalyst which forces overdue change on the US public securities markets. Details, **Page 28**

## Is US inflation cholesterol-free?

By Anthony Harris in Washington

FIRST, a blue thought on a green day. Earth Day. American style, might well be rechristened Paranoia Sunday. The cause is good, and many of us have been pursuing it with some effect for the last four decades. Salmon have returned to the Thames and the Hudson; you can breathe the air in the streets of Washington, with comfort while on your way to enjoy the virgin forests flourishing on the eastern seaboard of the US. Car pollution is down by well over 90 per cent, there are more trees every year, and you might suppose that Earth Day would be something of a celebration. Not a bit of it. The appetite for interference simply grows with feeding. The Administration feels politically compelled to support a Clean Air bill which will do more for pollution than for respiration, reassuring its business friends that it will restore sanity by amendment later. Everybody happy? No. The Greens complain that the bill is still too weak; nobody knows if sane amendments will pass. Meanwhile, the real threats to a sustainable eco-system — the exhaustion of water resources and the persistence of dust-bowl farming methods — are not addressed. It looks too expensive. The best hope of reducing global warming, if the globe is indeed warming, is barred. Nuclear power, potentially clean (but potentially dangerous) cannot even be discussed in a nation of health neurotics. Americans are living longer and much healthier lives; indeed, they have more time to spare for Planet Earth by giving up over-eating than by all the green initiatives. But again, you wouldn't believe it. The healthier they get, the more they worry. The only likely relief may come from the animal rights people: if they could stop the health-worriers from inventing new carcinogens by poisoning laboratory rats, we might all be able to munch our oat-bran muffins in peace. The rival worries can interact ludicrously. Some of the health people, for example, now worry on no clear evidence that the catalytic converters which have cleaned up the air cause cancer. This should be a hot-selling item in the phobia store invented by Garrison Keillor, an affectionate and reliable guide to US neuroses. To conclude this grumble, consider the diaper saga. Many years ago mothers learned with delight that old-fashioned nappies, such

a chore to wash, gave babies skin trouble. Disposable — and recently, bio-degradable disposables — took over. Then the environmentalist started sinking bore-holes in landfills and their full of diapers. Green parents revived the washable nappy. Final (?) twist: someone has calculated that washing washables should be stopped on account of global warming. Meanwhile, the real business of America is becoming rather less subject to fads and neuroses. This is partly the calm radiated by President George "Gone Fishing" Bush, but mainly because the news from the real economy has become so monotonous. The monotony is artistically presented in the regular reports on economic trends which the Council of Economic Advisers (CEA) is compelled by law to present to the Joint Economic Committee of Congress. Simply by using a rather compressed vertical scale (very unlike the approach of newspaper chartists), the CEA has been able to present a book of virtually straight lines, sloping gently up to the right. That should keep them quiet. One class of people finds this calm worrying: monetarism thrives on Doomsday scenarios and the apparent success of the

Fed's pragmatic fine tuning was robbing quantity theorists of their audience. The bad inflation figures last week unleashed a little bit of 140d-you-so, but not much. Unfortunately for their credibility, the monetarist charge had been that Fed policy was too tight. The simple squeeze-it-out school of thought — what Denis Healey called sado-monetarism — is still alive and vocal. It is represented in the Fed by the regional bank presidents appointed under Mr Paul Volcker. Mr Robert Perry of the San Francisco Fed, the hardest of these hardliners, responded to the retail price figures by calling on the Fed to cap real growth at two per cent annually, and keep it capped. History knew of no example, he said, of inflation eliminated by a growth pause; it would take a long period of some slack. No historian is likely to argue with Mr Perry, but it is still open to those who are not central bankers to query his basic premise, and ask: are stable prices all they are cracked up to be? There are two fundamental arguments in favour of inflation, so long as it is fairly stable. The pragmatic case is simply that it seems to work, as witness not only Japan in its most dynamic phase, but Italy, France, and even the Reagan period here, marked by sustained growth and steady inflation of about four per cent. The theoretical case is simply to remember that inflation is not just a state of mind, but an adjustment process. In some circumstances it is a problem, but in others a solution. The problem it solves in a dynamic economy is to distribute the benefits of improved productivity in one sector to the economy in general. Thus, when in Japan the manufacturing sector was achieving productivity gains of the order of 15 per cent annually, the rest of the economy was (and still is) performing in a rather British style. Why, then, did not Japan become a nation of blue-collared yuppies and impoverished hairdressers? Because the gains were shared through a very simple formula. Wages also rose at 15 per cent; prices, because of the laggards, rose at 7.5 per cent. Hairdressers prospered, and wholesale prices of manufactures were completely stable. This adjustment problem is one which faces any dynamic economy, especially as manufacturing becomes more capital-intensive, and demand switches progressively to labour-intensive services. There are other solutions: falling prices in manufactures (as seen dramatically in electronics), or much wider share ownership; but a gentle inflation led from the service sector, the US experience, is also a workable answer. The worm in this apple (and remember that a worm in your apple shows it is chemical-free) is that the inflation rate gets built into interest rates; and that, according to the manufacturing lobby here, is a major cause of short-sighted management and under-investment. Maybe. But perhaps the cause is a tax system which uniquely penalises equity capital. Treasury Secretary Nicholas Brady says he is looking into this, which unfortunately arouses only modest hopes. Mr Brady asks the right questions; but he is not so good at answers.



## Economics Notebook

### Golden opportunity for Baltic states

THE WAR of nerves between Lithuania and the Soviet Union is being followed with more than usual interest by monetary officials in the leading industrialised nations. For if Lithuania and the other Baltic states achieve independence from the USSR, some tricky questions will have to be resolved by western treasuries and central banks, not least in Britain. The whereabouts of the former gold reserves of Lithuania, Latvia and Estonia would be an obvious issue to be raised by the authorities of future independent Baltic states. A lesser, but intriguing question, concerns the relationship of these countries with the BIS, the Basle-based central bankers' bank. At the start of the Second World War, many European countries shipped their monetary reserves abroad. It has been reported that gold belonging to the central bank of Lithuania was placed with the US Federal Reserve, the Bank of France, the Bank of England and the BIS in Basle. Independence for the Baltic states could place the Baltic authorities in an especially awkward position. Unlike the Bank of France, which still holds Lithuanian and Estonian gold and is prepared to hand it back to legitimate successor states, the Bank of England no longer has the gold entrusted to it by the Baltic central banks. The Bank was forced to sell the 460,220 fine ounces of gold belonging to the three Baltic states under a 1938 settlement of mutual financial and property claims between the Governments of Britain and the USSR. The proceeds — some \$5.6m (\$9.5m) — were paltry compared with the \$105m that such holdings would be worth today.

The British action in 1968 contrasts strikingly with the attitude of the BIS, which the Bank of England helped to found in 1930. If the Baltic nations do achieve independence, the central banks should be able automatically to rejoin the BIS despite a lapse of 50 years. The BIS is the only important forum of economic co-operation which dates from before the Second World War. Despite the 1940 Soviet occupation of the republics, subsequent global conflict and cold war, it has — in a rather doggedly Swiss way — remained open to the possibility of the three Baltic states returning to the fold. The central banks of Lithuania, Latvia and Estonia were BIS shareholders in the 1930s. According to the ninth annual report of the BIS, published in May 1989, the Lithuanian and Latvian central banks held 500 shares each, while Estonia's holding in the BIS was 100 shares. They were clearly not big players in international financial affairs. A holding of 500 shares amounted to just 0.25 per cent of the BIS stock outstanding in 1939. But their rights were preserved when, as an act of policy at the start of the war, the BIS board decided "to refrain from any act implying recognition of political or territorial changes which had not previously received unanimous recognition." Meanwhile, mystery surrounds the whereabouts of BIS share certificates issued to the three banks. It is unknown whether they are held by the Soviet Union, because Moscow seems never to have tried to use the shareholdings to gain access to BIS meetings. Soviet central bankers have been occasional visitors to the BIS headquarters in Basle, but

## THIS WEEK

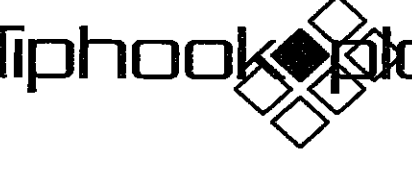
**INFLATION** fears in the US and UK are likely to dominate the markets this week and increase uncertainties surrounding forecasts for the whole economy. The UK financial markets are becoming agitated about the rate of inflation — generally expected to pass 10 per cent — to be revealed in the April retail price index. The mood is that double-digit inflation could last until November. Wage settlements above the rate of inflation — currently 8.1 per cent — are also playing a part. In the US, worse-than-expected consumer price inflation has been causing disarray in the Treasury bond market. The trade figures on Wednesday are the most significant UK statistics. The markets expect stagnant domestic demand will have helped to slow the rate of import penetration in March. The consensus of analysts' forecasts recorded by MIMS International, the financial research company, is that both the trade deficit and the current account will total £1.3bn (\$2bn). It is expected that the non-oil deficit will narrow to £1.4bn, and the invisible balance of earnings on goods and services will remain at zero in March. The UK money supply figures, released today, are predicted to fail to meet the Treasury's target range. But analysts are pointing to heavy interest charges on corporate lending at the end of the quarter to explain a probable surge in bank and building society lending. In West Germany this week, on no scheduled dates, are the release of M3 money supply, import prices and cost of living figures for March. Today, UK, provisional money supply figures for March: M0, notes and coins in circulation (0.3 per cent), M4, bank and building society lending (1.4 per cent), Japan, retail sales for March, Luxembourg,

## UK trade deficit



EC economic and finance ministers meet. Tomorrow: UK, new building society commitments for March (\$4.1bn), US, employment cost index, first quarter, 1990, durable goods orders, March (1.95 per cent), Washington, EC President Jacques Delors addresses the National Press Club, first quarter employment cost index (1.5 per cent), France, trade balance for March (FFr2bn deficit). Wednesday: UK, visible trade balance (£1.3bn deficit) and current account balance of trade (£1.3bn deficit) for March, US, Alan Greenspan, chairman of the Federal Reserve, testifies before the Agriculture Committee, two-year note auction, auto sales. Thursday: Japan, industrial production for March (1.5 per cent), Governor of the Bank of Japan holds press conference, US, money supply figures for the week ending April 16, import and export price index of March, Australia, export price index for February. Friday: US, real gross national product (2.3 per cent) and the GNP deflator (5.5 per cent), one-year bill auction announced, corporate profits after tax, fourth quarter, housing vacancies, first quarter, bank credit for March, Japan, unemployment for March. Saturday: EC leaders meet in Dublin.

This announcement appears as a matter of record only



has acquired the dry cargo and tank container fleets and other related assets of Sea Containers Ltd. for \$546 million

## Morgan Grenfell & Co. Limited

underwrote £235 million (\$376 million) of new equity for Tiphook plc and acted as its lead financial adviser in this acquisition



## INTERNATIONAL CAPITAL MARKETS

## CORPORATE FINANCE

## SEC likely to extend participation

THE changes agreed last week to the rulebook of the US Securities and Exchange Commission showed the regulator responding favourably to suggestions to broaden participation in the market for private placements and to enhance trading in the issues.

According to those who attended last week's meetings, there was also an emphasis that the changes were only the first of a programme to bring down barriers to foreigners in the US market.

The most significant change for US investors is that the SEC has effectively lifted its 10 per cent limit on holdings of private placements - formerly classified as illiquid securities - by mutual, pension and open-ended investment funds.

Now the board of each fund can decide what proportion of its portfolio will be devoted to private placements, opening up a much larger body of investors for the securities. In a move intended to improve trading of private placements, the SEC also decided to lower the capital requirement - or "haircut" - for dealers' inventories of private placements. Formerly, dealers had to hold capital equal to the total value of any private placement. Now they will only have to count 15 per cent against their capital for equities and a similar amount for investment-grade fixed-income securities. However, the lower haircut will not apply to securities regarded as non-investment grade by two recognised credit rating agencies.

Another late modification was that, to qualify under Rule 144a, banks and savings and loans institutions would have

to have a net worth of \$25m as well as have \$100m in holdings of securities. One broker attributed this to "a desire to keep the savings and loan rift-rift from plundering the private placement market."

Other institutions simply have to hold \$100m in securities, giving access to the market to more than 2,000 institutions. But to encourage dealers the SEC lowered the capital requirement from \$100m, as earlier proposed, to \$10m.

The SEC has also lifted previous restrictions on reselling securities outside the US. In fact, privately-placed securities will be saleable overseas in 17 recognised foreign stock exchanges, to be specified. But they may not then be sold back.

Another significant development last week, according to Mr Jim Stewart, managing director of S.G. Warburg in the US, was a firm promise from Mr Richard Breiden, the SEC chairman, that the commission would start immediately to examine whether foreign companies with existing US ownership of their shares should be allowed to execute subscription offers in the US such as rights issues and dividend reinvestments.

Mr Stewart applauded this, noting that, for example, British Airways could not offer its issue of convertible securities last year to its substantial body of US shareholders. Mr Andrew Clearfield of the College Retirement Equities Fund, a pension fund which manages \$34bn, said that this would provide an important missing link.

One of the most crucial elements of the decision was to

allow the National Association of Securities Dealers to go ahead with Portal, its trading system for private placements.

Portal will be a closed system, which will allow any institution dealing on it to know that its counter party is also a qualified institution. It is meant to be used to distribute new issues and as a secondary market. Some institutions believe it is the establishment of a standard US distribution network, rather than the notion of a liquid secondary market, that will encourage previously reticent US institutions to buy foreign stocks.

Portal will have the market to itself initially. However, the American Stock Exchange has its own version, Sitis, which it says it is developing with an unnamed "worldwide vendor."

Rules governing the private placement market were not the only ones to change. According to Mr Edward Greene and Mr Dan Braverman, of the US law firm Cleary, Gottlieb, Steen and Hamilton, the new Regulation S simplifies the rules for offerings overseas for many companies, both US and foreign.

It no longer attempts, as the old rule did, to prevent US nationals overseas from buying securities not registered with the SEC. And it no longer forces US securities firms to go overseas to become involved in such offerings.

A combination of the rule changes would seem likely to make it easier for companies to combine an overseas offering with a US private placement. But the impact will be more significant on the equity market than on the international bond market.

Regulation S does get rid of the old 90-day "lock-up," where Eurobonds had to be seasoned for 90 days before being sold to US investors. Now there is a 40-day restricted selling period. But the ability to offer Eurobonds to foreign investors and in a US private placement at the same time will be obstructed by the US Internal Revenue Service. The reason is its long-term aversion to bearer bonds - the form in which most Eurobonds are issued - which it sees as a vehicle for tax evasion.

Previously the treatment of such issues by the IRS and the SEC was in line. Now, according to Mr Greene of Cleary, Gottlieb, Steen and Hamilton, the new Regulation S simplifies the rules for offerings overseas for many companies, both US and foreign.

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Additional reporting by Janet Bush and Deborah Hargreaves

Stephen Fidler

## INTERNATIONAL BONDS

## Spain moves to unusual prominence

THIS morning's expected launch of an Ecu500m five-year issue by the Kingdom of Spain has put the Spanish bond market into a position of unusual prominence. According to analysts it marks the culmination of recent efforts by the Spanish Government to liberalise the peseta debt market in the hope of attracting more capital into the country.

In the short term the focus will be on today's issue. On Friday syndicate members said the likely terms suggested a 10% per cent coupon and an issue price of 100.50, giving a yield at less 1% per cent full fees of 10.98 per cent.

Assuming the market holds at current levels, syndicate officials are confident of strong demand for the paper.

## EUROMARKET TURNOVER (\$m)

Primary Market	Securities	Govt	FW	Other
US\$	430	0.0	0.0	9,922.9
YTD	545.0	200.0	125.0	11,100.3
Pre	2,664.3	0.0	278.0	4,311.5
Pre	580.6	113.0	0.0	4472.6

Secondary Market	US\$	YTD	Govt	FW	Other
US\$	9,112.2	724.7	2,723.1	5,003.5	
YTD	13,589.1	888.4	3,270.6	7,944.4	
Pre	13,589.1	888.4	3,270.6	7,944.4	
Pre	13,589.1	888.4	3,270.6	7,944.4	

US\$	YTD	Govt	FW	Other
US\$	9,009.8	18,250.5	20,144.8	
YTD	12,257.4	24,382.4	24,742.8	
Pre	20,424.0	21,252.2	51,716.2	
Pre	20,424.0	21,252.2	51,716.2	

Week to April 20, 1990 Source: AIBD

It is not every day that a sovereign credit launches a large, liquid issue offering a premium to prevailing sector interest rates. However, perhaps inevitably, political considerations appear to have played a large part in the Spanish Government's decision to appoint two domestic banks, Banco Bilbao Vizcaya and Banesto, as lead managers of the issue.

On a normal domestic deal this would attract little attention. With Ecu as the chosen currency, despite the deal's technically domestic character, leading international banks in the Ecu Eurobond market have been able to make strong claims for their own distribution capabilities over those of Spanish banks, which have an insignificant historical presence in that market.

This, combined with an unusual interest rate differential, has made today's deal a subject of strong debate. International banks, six of which are senior co-managers, pledged to distribute Ecu500m each, expect to handle the bulk of the paper.

While the Spanish Government, like its French counterpart, is keen to encourage the development of a domestic Ecu market, the current interest rate environment means Spanish investors are unlikely to buy much of today's issue. Spanish interest rates for

five-year funds are around 15 per cent, compared with Ecu rates of less than 11 per cent.

This gives no incentive to peseta-based funds which would face a currency risk in addition to the negative rate differential.

By contrast, in France investors have an obvious yield pick-up when they buy Ecu bonds, and this has helped the steady growth of the government's Ecu borrowing programme. The likely lack of domestic interest is thus at odds with the deal's domestic status.

The decision by the lead managers to adopt the fee structure typical of the Mataro market has annoyed the foreign banks because they will have to give up 1/4 point of their underwriting fees in the form of a *procuracion*, that is a fee taken by the lead as compensation for its extra work in launching a deal.

On a senior co-manager's allocation of Ecu500m, that 1/4 point represents lost income of nearly \$40,000, a significant sum in today's difficult market conditions. It remains to be seen whether the lead managers are earning their *procuracion* by managing to place more bonds in Spain than expected.

The controversy suggests that as the Spanish Government deregulates bond issuance, it will have to eliminate this sort of anomaly.

Nevertheless, analysts are increasingly seeing the Spanish bond market as offering an attractive emerging market play.

According to UBS Phillips & Drew, the Government is trying to make its debt more attractive to foreign investors and to increase the average maturity of its borrowings.

Not only has a series of measures liberalising capital flows and trading strategies been introduced, but it also seems likely that the Government intends to broaden the base of the Mataro market. Mataros are bonds from foreign issuers denominated in pesetas.

Currently only supranational entities of which Spain is a member are allowed to issue in this sector.

It is widely expected that the first sovereign issue will be launched, perhaps as early as next month, with Austria and Denmark cited as possible borrowers.

Government-guaranteed state entities might follow, with corporate borrowers waiting in the wings.

One possible measure has been the subject of persistent speculation, namely that the Government intends to abolish withholding tax on domestic bonds. However, according to analysts it is unlikely the tax will be removed before 1992.

Andrew Freeman

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Rosa1 (a)†	300	1998	8	30bp	100	Nomura Int	
Rosa2 (b)†	600	2000	10	(c)	102	Nomura Int	
LTCB Finance NV(c)†	125	2000	10	(c)	102	LTCB Int	
Caisse Autonome Refin.(d)†	100	1995	5	-14 1/2 bp	100	Credit Lyonnais	
CANADIAN DOLLARS							
ASLK-CGER IFCO(e)†	50	1992	2	14 1/2	101.85	Mitsubishi Finance Int	13.139
Credit Lyonnais†	75	1993	3	13 1/2	101.80	Cred.Lyon.Euro-Secs.	13.072
D-MARKS							
ASCI Corp***	50	1994	4	9 1/2	101 1/2	IBJ (Germany)	8.666
Credit(10)†	350	1994	4	(f)	100.20	CSFB-Electrobank	
SWISS FRANCES							
Renault Acceptance(e)***	75	1995	-	7 1/2	101 1/4	UBS	7.442
Toyota Motor Credit***	100	1995	-	8	101 1/4	SBC	7.587
Deutsche Giro-Deut.Komm†	125	1995	-	7 1/2	101 1/2	SBC	7.133
FRENCH FRANCES							
Compagnie Gen.Elec.(10)†	2bn	2000	10	6.5	100	Societe Generale	
STERLING							
HMC Mortgage Notes 5 Pict††(f)	150	2030	40	(f)	100	CSFB Hambros Bank	
Briania B.Society(g)††	100	1994	4	10bp	100		
LIRE							
Borrowers							
World Bank(e)†	400bn	1995	5	12 1/2	101.30	B. Naz. Del Lavoro	11.786
ECUs							
Credit Local(j)†	75	1995	5	10 1/4	100.07	Bankers Trust Int.	10.230
FINNISH MARKKA							
Swedish Export Credit†	150	1993	3	19 1/4	101 1/4	UBF	12.671
Finnish Export Credit†	200	1993	3	13	100 1/2	OCBM/Postipankki	12.736
YEN							
IADB†	30bn	2000	10	7 1/2	101 1/4	Nomura Int.	7.089
Toyota Motor Credit Corp.†	15bn	1992	2	7 1/2	101 1/4	Nomura Int.	7.003
EBI†††	35bn	2000	10	(k)	98.85	J.F. Morgan Secs.	
LUXEMBOURG FRANCES							
Renault Acceptance***	200	1993	3	10 1/4	102	BGL	9.454
Unibank, AS***	300	1993	3	10 1/4	102	BGL	9.380
Unifinanc***	300	1997	7	10	101.95	BGL	9.805
Olveti Int.***	300	1995	5	10	101 1/4	BGL	9.544
Pabellina(m)***	600	1997	7	10	101 1/4	BGL/Banque de Lux.	9.645
Banque CSIA***	300	1993	3	10 1/4	101 1/4	KBL	9.379
Banque Worms***(m)	600	1997	7	10	102	KBL	9.595

## Daily Mail in CP issue

By Stephen Fidler, Euromarkets Correspondent

THE Daily Mail and General Trust has established a £100m sterling commercial paper programme arranged by NatWest Capital Markets.

The programme, which has a US dollar option, will be used for general financing requirements. Midland Montagu and Morgan Grenfell are also dealers.

Macmillan/McGraw-Hill School Publishing Company, the joint venture between Macmillan and McGraw-Hill which

is the largest school publishing company in the US, has signed a \$225m credit with a group of international banks.

The three-year revolving credit was arranged by Lloyds Bank Capital Markets. Unibank has signed a \$2.5bn Eurocommercial paper programme, rated A1 by Standard & Poor's. The arranger was Citicorp Investment.

Unibank was formed by the merger of Handelsbanken, Privatbanken and Sparekassen.

## NEW INTEREST RATES.

Increased by % p.a.	PERSONAL LENDING	Interest Rate % p.a.	
With effect from 23rd April, 1990			
0.50	HomeOwner Reserve	19.50	
Increased by % Monthly	With effect from 23rd April, 1990	Interest Rate % Monthly	
0.10	Home Management Account	2.20	
0.05	FlexiLoan Account	2.00	
0.20	CheckOver	2.20	
0.10	Orchard Overdraft Reserve	1.90	
0.05	Vector Overdraft £250 - £1,000 Reserve	2.00	
0.10	Meridian Overdraft Up to £4,999	1.80	
0.10	£5,000 - £9,999	1.70	
0.10	£10,000 + Reserve	1.60	
0.10		1.70	
Gross Interest % p.a.	OTHER RATES	Net Interest % p.a.	Gross Equiv. to a Basic Rate Taxpayer % p.a.
With effect from 23rd April, 1990			
5.77	Home Management Account	4.50	6.00



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Issued by Bankers Trust Company Limited evidencing entitlement to payment of principal and interest on deposits with Banca Nazionale dell'Agricoltura S.p.A.

Notice is hereby given that the Rate of Interest has been fixed at 8.8125% for the interest period 23rd April, 1990 to 23rd October, 1990.

The interest amount payable on 23rd October, 1990 will be US\$ 4,479.69 in respect of each receipt.

Agent Bank  
19th April, 1990

Bank of China  
U.S.\$200,000,000  
Floating Rate Notes 1992

In accordance with the provisions of the Notes, notice is hereby given that, for the six month period 23rd April, 1990 to 23rd October, 1990, the Notes will bear interest at the rate of 8 1/4% per cent. per annum. Coupon No. 6 will therefore be payable on 23rd October, 1990, at US\$11,199.22 per coupon from Notes of US\$250,000 nominal and US\$47.97 per coupon from Notes of US\$10,000 nominal.

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The Financial Times proposes to publish this survey on:

June 21st, 1990

For a full editorial synopsis and advertisement details, please contact:

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March 1990



## INTERNATIONAL COMPANIES AND FINANCE

## Banesto's tax bill reduced by 70%

By Peter Bruce in Madrid

THE Spanish Government has made Banco Espanol de Credito (Banesto) a tax gift of Ptas19.2bn (\$180.4m) to help the bank merge its wide industrial and financial services interests into one unit.

Having waited for more than nine months for the Government to give the project its blessing, Banesto is now likely to move quickly to establish Corporacion Industrial, which will include controlling stakes in Union Y Fenix, the insurance group, Asturiana de Zinc (mining), Acerinox (steel), Petronor (refining), Agromon (construction) and Tudor (batteries).

The Corporation would be worth some Ptas220bn at current stock market prices. It would account for just over 1 per cent of Spain's gross

domestic product and become easily the country's largest private sector industrial group.

The Government was initially wary of Banesto's plan and it was only a private meeting earlier this year between Mr Felipe Gonzalez, the Prime Minister, and Mr Mario Conde, Banesto's president, that broke the deadlock.

Under Spanish law the Government is able to waive capital gains tax on up to 99 per cent of the profits realised when assets are revalued during a merger.

Mr Conde had to do some persuading to convince the Government that merging all the holdings currently held in five different Banesto portfolio companies was in the national interest, as well as being in Banesto's interest.



Mario Conde argued to convince the Government

and financial holdings would generate profits of Ptas204bn and asked for a Ptas44bn tax award.

The Government, though, has decided that many stakes were too small to consider and has waived just 70 per cent of the taxes due.

Mr Conde, who has made much of the need to disentangle Banesto's banking and industrial operations, is likely to use the Ptas19.2bn to strengthen the parent bank's balance sheet.

Banco Bilbao Vizcaya, Spain's largest bank, reports a gross profit of Ptas23.3bn for the first quarter of 1990, up from Ptas19.42bn a year ago. The bank said amortisations rose 11 per cent over the first quarter of 1989 but gave no actual figures.

## Noranda Forest falls by 90% in first quarter

By Robert Gibbins in Montreal

NORANDA Forest, Canada's largest pulp and paper group, has reported a dramatic decline in first-quarter earnings, blaming the high Canadian dollar and heavy discounting in newsprint and some other products.

Net profit tumbled by 90 per cent to C\$6m (US\$5.16m) or one cent a share from C\$58m or 55 cents a year earlier, on revenues little changed at C\$1.21bn. The results include losses in several big pulp and paper companies across Canada, including MacMillan Bloedel, whose first-quarter earnings fell 26 cents a share from 66 cents.

Noranda said the newsprint market had stabilised and some recovery was possible by mid-year. Other grades should also improve. The benefits of past heavy capital spending would begin to be felt in the second half.

Noranda's results were mirrored by a similar downturn at Fletcher Challenge Canada, where first-quarter earnings dropped by more than 50 per cent to C\$15.7m or 26 cents a share.

The company's sales were C\$262m against C\$335m. Sales volumes were lower in pulp, newsprint and coated papers. Newsprint and lumber prices were weak.

Fletcher is less optimistic than Noranda about recovery later in 1990.

## Avon plan for \$450m sale of unit runs into problems

By Karen Zagor in New York

AVON PRODUCTS, the world's largest maker of cosmetics and toiletries, suffered a setback in plans to sell its stake in Avon-Japan for \$450m in cash and royalties when potential buyers said they did not intend to close the sale by April 27.

The New York-based company agreed in February to sell its interest in Avon-Japan to Tokyo-based Friends of Freesia and Mr Veji Sasaki, Freesia's president.

The original closing date was March 30, but this was later extended to give the Japanese more time to review the pact. At the time of the extension Avon said it would "retain

the right to receive a \$6.3m escrow deposit from the prospective buyers if the discussions do not result in a successful closing."

Avon said it still planned to sell all or part of its 60 per cent holding in Avon-Japan and "would be prepared to resume discussions with others who express an interest" after April 27.

The US company has been under considerable pressure to generate cash to reduce its debt burden in the wake of disappointing fourth-quarter results and a series of takeover

approaches over the last 12 months.

Although Avon last month settled a pending proxy fight with Chartwell Associates, a partnership which includes the wealthy Getty and Fisher families, the company is far from comfortable with the Chartwell stake.

When Chartwell increased its Avon holding to about 16 per cent in early April the company called the purchase "inappropriate" and introduced a poison pill - to be triggered when any buyer acquired more than 20 per cent of its common stock.

## Big demand in Taiwan's bank offer

By Gordon Cramb in Taipei

A PUBLIC offer by the Taiwanese Government of shares in the island's three largest commercial banks, intended to raise about T\$25.8bn (US\$977.3m) in its biggest privatisation so far, is expected to emerge this week heavily oversubscribed - but with its success still by no means assured.

The sum is due to come from a Ministry of Finance sale of its shareholdings of 4.7 per cent apiece in Chang Hwa Commercial Bank and First Commercial Bank, and 0.5 per cent in Hua Nan Commercial Bank. It is a prelude to a far larger disposal by the Taipei provincial government, which controls close to half of each bank but which may sharply reduce these holdings within the next year.

The privatisation comes at a time of deregulation in the banking sector, bringing more competition for the traditionally slow-moving state banks.

As moving for the share offer continued at the weekend, estimates were that oversubscriptions could range between 40 and 100 times. The issues were priced at discounts of about 20 per cent.

## LSI Logic back to profitability

By Louise Kahoe in San Francisco

LSI Logic, the leading US producer of application specific semiconductor chips, returned to profitability in the first quarter following an improved use of production capacity.

Last year the company had excess factory space and was forced to close some of its older facilities.

Net income was \$2.1m or 5 cents per share, including a gain of \$955,000 or 2 cents per share from the early retirement of convertible debt. Operating income for the quarter was \$2.2m.

Revenues for the quarter

were \$139m, up 4 per cent from \$133.5m last year.

While net income in the first quarter was down 74 per cent on the \$8m or 19 cents recorded in the first quarter of 1989, it represented a comeback from losses of \$1.7m or 4 cents in the fourth quarter of 1989.

First-quarter net income was reduced by proportionate losses of \$923,000 from LSI Logic subsidiaries and affiliate companies, which include its Headland personal computer chips and circuit boards subsidiary in the US and affiliate companies in Europe, Japan and Canada.

LSI Logic does not break down the individual performance of subsidiaries but said they were making progress in profitability: 38 per cent of revenues came from international operations, the company said.

"The big improvement in financial performance was a direct result of better utilisation of factories," Mr Wilfred Corrigan, chairman and chief executive, said. "The increased factory utilisation was fuelled by a healthy increase in orders over the past several months."

Higher US sales help lift Esab to SKr118m

By Robert Gibbins

ESAB, the world's leading welding equipment manufacturer, increased profits after financial items for the first three months of the year by 23 per cent to SKr118m (\$19.2m), writes Robert Taylor in Stockholm.

Sales for the quarter rose to SKr1.84bn from SKr1.13bn. The company reaffirmed its previous buoyant forecast for the whole of 1990.

The good performance is mainly due to higher sales and profits generated by recently acquired American companies.

## FLS Industries to raise payout

FLS Industries, the Danish cement plant manufacturer and engineering and building materials group, plans an increase in dividend from 10 per cent to 12 per cent after increasing pre-tax profits from DKr295m (\$45.4m) to DKr485m and net profits from DKr181m to DKr436m, writes Hilary Barnes in Copenhagen.

Group turnover increased from DKr6.06bn to DKr9.38bn. The company said that the current year would also be satisfactory, with rising activity in all divisions.

## Varig eyes airline share

VARIG, the Brazilian airline, intends to bid for a minority share in Aerolineas Argentinas, writes John Barham in Sao Paulo.

The Argentine Government, which owns the loss-making airline, plans to privatise the company this summer. Alitalia and American Airlines are also expected to bid for Aerolineas Argentinas. Varig said it was seeking to take over the airline with a group of Argentine bankers and businessmen.

## Nobel division to be reshaped

NOBEL Industries, the Swedish armaments and chemicals group, plans a radical reorganisation of its Nobel Plant division which last year accounted for almost 5 per cent of group turnover, writes Our Financial Staff.

The company said yesterday that it would either put the division, which employs about 2,000 people, into a joint venture or would opt for an outright sale.

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## NOTICE OF TENDERS

## Kingdom of Lesotho

Lesotho Highlands Development Authority  
Contract for Supply and Installation of Subscriber Radio System to serve the Lesotho Highlands Water Project (LHWFP)

Contract No. 119  
The Lesotho Highlands Development Authority (LHDA) requires a new Subscriber Radio System (Multi-Acces Radio) to be supplied and installed in the Kingdom of Lesotho. The Systems are needed to provide a comprehensive communications network to serve a number of outstations which are required to provide telephone, facsimile and data communications to residential, commercial and construction sites for Phase 1A of the Lesotho Highlands Water Project (LHWFP). The contract will involve providing two systems as follows:

- 300 line system interconnected to the Lesotho Telecommunications Corporation Network at Thaba-Tseka.
- 200 line system interconnected to the Lesotho Telecommunications Corporation Network at Buthe-Buthe.

Tenders will be issued for the supply, delivery, off-loading, installation including all civil works, commissioning and handing over in complete working order for the above mentioned equipment. Civil works in Lesotho will be specified as a provisional sum and the work shall be carried out by a nominated sub contractor.

The nominated sub contractor will be selected by LHDA or selected by the contractor subject to the approval of LHDA.

Date of issue of Tender Documents: 30th April, 1990.  
Date of Closing Tenders: 1500 hours UK BST 1st June, 1990.  
Inspection Date: 5th March, 1991.

Major Telecommunications Contractors are invited to tender on this project. Only contractors with proven experience of work with Subscriber Radio Systems and of similar magnitude should apply for tender documents. The contractors should note that the in-service date is critical for the project.

Documents and further information may be obtained from: Lesotho Highlands Development Authority, Room 633, First Floor, Maseru Sun Cabanas Office Complex, Maseru, Lesotho (P.O. Box 7332, Maseru 100, LESOTHO). Telephone: International (266) 511280 Telex: 4523 LHDA LO Fax: International (266) 510060.

OR  
Lesotho Project Office, Room A116, British Telecom, Aeradio House, Hayes Road, Southall, Middlesex UB2 5N, United Kingdom. Tel: +44 1843 2411 Telex: 24114 (BTAL.G) Fax: +44 1 571 7244.  
(After 6th May 1990 Dial +44 91 followed by Telephone or Fax number).

The tender documents will only be made available to official tenderers' representatives in possession of an official company letter upon full identification of the potential tenderer on presentation of a payment of:

- 1) £1,000 made payable by banker's draft in favour of Lesotho Highlands Development Authority (LHDA) if documents are collected in Lesotho.
- 2) £250 in sterling made payable by banker's draft in favour of British Telecom if documents are collected in the United Kingdom.

These payments are not refundable, unless a valid tender is submitted.

To the Holders of

## COLLATERALIZED MORTGAGE OBLIGATION TRUST SEVENTEEN

## Class A-1 Floating Rate Bonds Due 2018

Notice is hereby given that the interest rates applicable to the above bonds for the interest period April 20, 1990 through July 19, 1990, as determined in the Indenture, is 9.00% per annum. Amount of interest payable will be \$10,925,396.75 per \$1,000 principal amount.

## COLLATERALIZED MORTGAGE OBLIGATION TRUST SEVENTEEN

## FINANCIAL TIMES CONFERENCES

## EUROPEAN TRANSPORT IN THE 90s

21 &amp; 22 May 1990 - London

The Financial Times second transport conference will focus on the problems and challenges facing the industry in Europe in the 90s and debate the financing and planning of transport infrastructure to meet future growth traffic demands. The opening address will be given by the Rt Hon Cecil Parkinson, MP, Secretary of State for Transport and the list of distinguished speakers will include Eduardo Pena, Director-General for Transport at the European Commission; André Bénard, Co-Chairman of Eurotunnel; Bernard Lathière, Chairman, Aéroports de Paris; Brian Unwin CB, Chairman, HM Customs & Excise; John Fletcher, Managing Director - Corporate Development, Trafalgar House and Dirk Goodhart, Managing Director - Corporate Forwarding, Philips International.

## FINANCE, INVESTMENT AND TRADE WITH THE SOVIET UNION

30 &amp; 31 May 1990 - Moscow

The Financial Times, the Royal Institute of International Affairs and IMEMO, the Institute of World Economy and International Relations of the Academy of Sciences, have joined forces to arrange their first international business conference in Moscow at the end of May.

The dramatic political and economic changes affecting the Soviet Union open significant opportunities to Western business as a more market based economy develops. This important and topical conference will provide a rare opportunity to listen to, debate and meet leading Soviet figures from Government, the Party, industry and finance and the agenda gives equal stress to politics, economics, trade and finance.

Dr Aleksandr Yakovlev, Senior Member of the Politburo, is to be the principal speaker from the USSR and the list of distinguished Soviet contributors includes: Dr Leonid Abalkin, Deputy Prime Minister and Chairman, State Commission for Economic Reform; Viktor Gershenchenko, Chairman of the USSR State Bank; Dr Oleg Bogomolov, Director, Institute of the Economics of the World Socialist System; Academician Vladimir Tichonov, Chairman, All-Union League of Co-operatives and Vladimir Arutunian, Chairman and Managing Director, Soyuzneftexport (SNE). The list of eminent figures from OECD countries includes: Stephen Bechtel Jr, Dr Wim Duisenberg, Laurent Fabius, Ruggero Romano, Ryuschi Kawai, Dr Axel Lehnert, Dr Klaus Liesen, Dr Peter Wallenberg, Richard Webb and Otto Wolff von Amerongen.

## THE PUBLISHING INDUSTRY IN THE 90s

12 &amp; 13 June 1990 - London

The third Financial Times Conference on Publishing will look at every aspect of a growth industry - the business of books, magazines and newspapers from an international perspective. Strategies for success and survival will be reviewed as well as the influence of the changing technology of print. Speakers include: Andrew Knight, Executive Chairman, News International plc; Jim Warrillow, President, Canadian Publishing, Maclean Hunter Limited; Juan Luis Cobrian, Publisher & Chief Executive Officer, PRISA; Matthew Evans, Chairman & Managing Director, Faber & Faber Ltd and Alberto Vitale, Chairman, President & Chief Executive Officer, Random House Inc.

All enquiries should be addressed to:  
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## Notice of Adjusted Conversion Price to all Holders of

U.S. \$100,000,000

COMCAST CORPORATION



## 2 3/4% Convertible Subordinated Debentures Due 2003

Pursuant to Section 6.4(F) of the Indenture of Comcast Corporation to Bankers Trust Company, as Trustee, dated April 15, 1988, relating to the Company's 2 3/4% Convertible Subordinated Debentures due 2003 (the "Debentures"), the Company hereby gives notice that the Conversion Price of the Debentures under the Indenture has been adjusted effective October 24, 1989 from 53.879 to \$0.8185 shares of Comcast Corporation Class A Special Common Stock for each \$1,000 principal amount of Debentures. The Board of Directors of the Company declared a three for two stock split payable October 10, 1989 to stockholders of record on October 10, 1989 which resulted in the adjustment of the Conversion Price.

Comcast Corporation

Bankers Trust

Company, London

Agent Bank

23rd April, 1990

## INTERNATIONAL BusinessWeek

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Floating Rate Notes 1993/1993

with Warrants

The Rate of Interest applicable to the Interest Period from April 23, 1990 to October 22, 1990, inclusively, was determined by Morgan Guaranty Trust Company of New York, London, as Reference Agent to be 8 1/8% per cent per annum. Therefore interest per Note of U.S.\$ 10,000 principal amount is due on October 22, 1990 the relevant Interest Payment Date, in the amount of U.S.\$ 454.32.

Frankfurt am Main,  
April 1990

Dresdner Bank

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## CONFERENCES



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## LEGAL NOTICES

No. 002033 of 1990  
IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
IN THE MATTER OF SMITH NEW COURT CORPORATE FINANCE LIMITED  
-and-  
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 9th April 1990 concerning the reduction of the share premium account of the above named company by £1,238,000 was registered by the Registrar of Companies on the 19th April 1990.

Dated this day of April 1990

Ashurst Morris Crisp

Broadwalk House

5 Appold Street

London EC2A 2HA

Solicitors for the said Company







# THERE'S SOME CORNER OF A FOREIGN FIELD THAT IS FOREVER SOLIHULL.

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## UK COMPANY NEWS

## Globe to consider asking for an investigation

By John Thornhill

GLOBE Investment Trust will consider today whether to lodge a formal complaint against the British Coal Pension Funds, which Globe suggests may have acted on inside information in launching its £1.03bn bid on Friday.

Globe, the UK's largest investment trust, will discuss the issue this morning with its advisers and may call on the Takeover Panel or the Department of Trade and Industry to investigate. Globe is being advised by Baring Brothers, the merchant bank, and Linklaters & Paines, the solicitors.

The central plank of Globe's argument concerns a meeting it held with British Coal Pension Funds last Thursday afternoon at which it claims it discussed general market issues

and its performance in the financial year to March 31 1989. The British Coal Pension Funds, which formed Globe's largest shareholders with a stake of 28.3 per cent, had been shareholders for over 15 years.

Mr David Hardy, Globe's chairman, said: "It was a regular up-dating meeting. But he claimed that at no time did British Coal Pension Funds make any mention of their intention to increase their holding in Globe."

Yet later that day, at around midnight, the funds agreed to buy a 5 per cent stake in Globe from Standard Life, the life assurance company. This raised the funds' holding in Globe to 33.8 per cent thereby triggering a full bid for the UK's largest investment trust.

Mr Hardy said he was only told of the funds' offer at 7.30am on Friday morning. British Coal Pension Funds were not prepared to discuss the issue in detail yesterday but contested Globe's version of the meeting on Thursday. A spokesman for the funds said: "This was a routine meeting. In our opinion no price sensitive information was passed."

Meanwhile, Cazenove, Globe's stockbrokers, has asked the Stock Exchange to investigate an apparent leak of information which might have affected Globe's share price in the days preceding the bid. The stock market was alive with rumours of a bid last Thursday as Globe's shares rose 2½p to 174½p against the market trend.

## Support conversion urges Unichem

By Andrew Bolger

UNICHEM, the co-operative wholesale chemist which plans to float on the stock market later this year, has written to its 4,500 members, urging them to support the plans for conversion from mutual status.

The directors are unanimously recommending members to vote for conversion and to apply for shares in the new company.

The letter states: "Most importantly, whether or not members vote for conversion, the directors most strongly recommend members to apply for their conversion shares and, subject to their individual financial circumstances, to apply for their entitlement to offer shares."

Members who do not apply for shares in the new company will suffer a substantial financial disadvantage, the document warned.

## Euro Leisure offer will not be increased

European Leisure said yesterday that its £72m offer for Midsummer Leisure, the pub, disco, snooker club and slot machine operator, would not be increased, writes Andrew Bolger.

The offer was originally supported by the directors of Midsummer, who have irrevocably pledged their 15.1 per cent stake to acceptance, but they have now advised shareholders to reject it, citing the fall in European's share price since the bid launch.

Mr Michael Ward, chairman and chief executive of European Leisure, said his directors were convinced by the commercial benefits of combining the two groups. Midsummer had also publicly supported this view and originally recommended the offer.

"The rejection of our offer by Midsummer Leisure is disappointing," he said.

European Leisure said its offer valued each Midsummer share at 154p, a premium of 30 per cent on Friday's closing price of 118p.

## Shareholder loyalty hard to sway

Andrew Hill on the fight facing the latest bidder for Molins

Investors in Molins must be wondering whether they inadvertently added their names to a bizarre mailing list when they bought shares in the cigarette machinery and packaging group.

Since 1985, a succession of predators has kept the letter-boxes of Molins shareholders rattling cheerfully with their offer documents and the company's subsequent defence.

Including increased offers, shareholders have had to consider five attempts by outsiders to take over their company, valuing Molins at between £55.3m (IEP securities' first shot last June) and £95m (Tosar Kemsley & Millbourn's second bid in August 1987).

Three times the Molins board has rapped out the monotonous condemnations peculiar to corporate bid battles.

All five offers have been "derisory", "totally unacceptable", "wholly inadequate" and "opportunistic". Two of them were crushed, albeit at a total cost to the company of £24m.

In 1985, shareholders even rejected their independent directors' recommendation of a management buy-out attempt — one of the first for a UK quoted company — which valued Molins at just under £50m.

The latest hostile attempt, a £76m cash offer from the publicly-shy US group Leucadia National Corporation, is still running and Molins' shareholders received their defence document about 10 days ago.

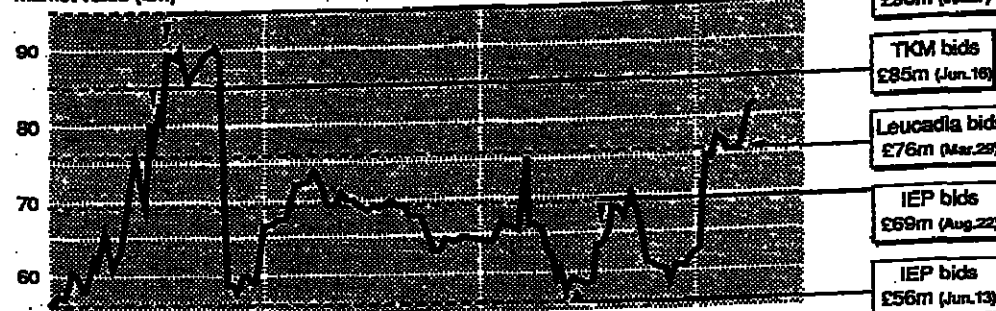
So how does this Molins defence compare with the last two? More importantly, how can any defence document help shareholders assess the "real value" of their company?

The group's first two defences were both against Sir Ron Brierley, the New Zealand businessman. After failing with a bid from TKM in 1987, he used the residual 30 per cent stake in Molins as a platform for last summer's failed takeover attempt by IEP Securities, before selling the holding to Leucadia this year.

Molins has yet to miss a profit forecast made during a

## Molins

Market value (£m)



bid defence — indeed, it has comfortably surpassed its own predictions.

With hindsight investors might have jumped at TKM's increased offer in 1987, but nobody could have foreseen the stock market crash which followed its defeat. That said, the 1987 defence documents are still a cruel illustration of how easily hostages to fortune can be slaughtered.

In 1987, Molins' management team had "the vision and dedication necessary to ensure that Molins' special skills could be successfully applied to wider market sectors in coming years, through organic development and acquisition."

Yet within two months of the TKM bid defeat, Molins had lost its managing director, Mr Christopher Ross. Widely credited with the successful defence, he resigned or was dismissed (the point was disputed) because of "a basic incompatibility of management style and temperament," according to the group's chairman at the time. So much for dedicated management.

In contrast to TKM, the group argued in its 1987 document, "Molins' business has an inherent stability resulting from the long term nature of its products and the wide geographical spread of the markets in which it operates. The achievements of the last three years... will provide the basis for continuing growth."

Unfortunately for Molins, 1988 proved to be a difficult year. The long term nature and geographical spread of the business did not prevent delays in major contracts and a downturn in world demand for tobacco machinery, cutting profits from £10.2m (£200,000 more than forecast) to £8m before tax.

The results announcement a year ago marked the nadir of Molins' recent fortunes, and inspired a view among some City analysts — who perhaps recalled the 1987 defence document — that Molins was a "jam tomorrow" stock.

But Molins' shareholders have not held its failure to achieve 1987's ambitions against the company.

Mr Michael Wright, now the group's managing director, but a board director during all three hostile bids, says there used to be some justice in the jam tomorrow gibe.

But he is quick to defend the board's role three years ago ("you have to paint the prospects as honestly as you see them at the time"), and directors' continuing fight to keep the company independent.

In 1985, some directors wanted to take the group private because of uncertainty ahead. Five years later, the new defence document stresses the virtues of Molins' "strength and potential", founded on profits which rose from a restated £8.8m to £13.9m last year, surpassing the £12m forecast.

"We are now in my view doing a much, much better job of managing the business against a very tough market background — compared with 1987 when we were taking a direct, gun-bo approach, and grabbing as much work as possible in a bull tobacco market."

The task of drafting the latest defence document has been made somewhat easier by the similarity between the IEP bid and the Leucadia offer. Both groups are holding companies for a range of investments which have little commercial similarity to Molins' interests; similarly to Molins' interests, both predators have focused a

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## Ketson back in the black

Ketson, the marketing and financial services group, produced a £1m turnaround in 1989 to finish with a pre-tax profit of £122,000, against a loss of £960,000.

But the real improvement was greater, the directors claimed. The 1988 loss only included results of new companies from the date of acquisitions, and full year results of all group companies would have been a loss of £3.14m.

The second half and the early part of 1990 was a consolidation period as the businesses were strengthened. The major realignment of the group was largely completed and it could look positively to the future, they said.

ETC was the principal contributor to profits, achieving significantly higher revenues following a broadening of the client base. Moore's losses were much reduced, benefiting from a concerted effort to reduce the overhead base and to improve margins.

Turnover in the year advanced to £21m (£14.57m). There were extraordinary losses of £179,000 (£508,000) comprising the closure and sale of subsidiaries, and costs incurred in relation to a bid approach. The preference dividend is 18 months in arrears, amounting to £12,600.

## Finance director leaves VPI in cost-cutting move

By Alice Rawsthorn

VPI Group, the public relations company which has been rocked by the scandal surrounding Mr Don Carter, the former head of its US subsidiary, has announced the resignation of Mr Peter Barfield as its finance director.

Mr Barfield's resignation is part of a cost-cutting programme at VPI, which has been pruning central costs after issuing a profits warning earlier this year. He will be succeeded by Mr Jeremy Sell, who already works for one of VPI's subsidiaries and has been appointed group financial controller. VPI's shares fell by 2p to 25½p on Friday.

The cost cutting has involved shedding staff and the closure of the group's head-

quarters at Grosvenor Gardens in London's Belgraveia.

The group had warned that profits for the six months to March 31 would fall well below expectations chiefly because of its problems at the Carter Organisation, its proxy solicitation company in the US.

Last month VPI fired Mr Carter after he entered guilty pleas to two felony charges of grand larceny and income tax evasion in the US.

VPI is now considering suing Mr Carter for failing to disclose his criminal liabilities when negotiating the sale of his business in 1988. VPI hopes to reach an out-of-court settlement. Mr Angus Maitland, chairman and chief executive, will be in the US next week.

## Berry Birch £400,000 for year

Berry Birch and Noble, the USM-quoted financial planning company, finished the year ended January 31 1990 with a profit of £398,715, compared with the previous loss of £374,685.

However, dividends cannot yet be resumed as the profit and loss account is still in deficit. The last payment was an interim of 1.5p on account of

1988-89.

Turnover fell from £5.29m to £4.92m in 1989-90, but generated an operating profit of £347,000, against a loss of £502,000.

Net interest and other income dropped from £148,000 to £59,000, however.

After tax £138,000 (credit £43,000) earnings worked through at 4.3p (loss 3.3p).

## OMET S.A.

and

## LEROY SOMER S.A.

have been acquired by

## EMERSON ELECTRIC Co.

## LAZARD FRERES &amp; CIE

March 1990

## GRANVILLE SPONSORED SECURITIES

Capitalisation	Company	Price	Change on week	Gross div	Yield	% P/E
10532	Asst. Brit. Ind. Ord.	325	-2	10.3	3.2	8.8
575	Armstrong and Rhodes	23	0	4.3	2.9	14.6
118031	Barton Group Ltd	1500	0	6.7	6.3	-
18249	Barton Group Plc. Pref. (SD)	1000	-1	6.7	6.3	-
4839	Bray Technologies	80	0	5.9	7.4	7.1
1182	Brenthall Corp Pref	82	-1	11.0	13.4	-
2100	CCI Group Ordinary	311	+1	14.7	4.7	3.8
2100	CCI Group 11% Conv Pref	168	0	14.7	8.8	-
16740	Carbo Plc (SD)	2100	0	7.6	3.6	12.4
770	Carbo 7.5% Pref (SD)	110	0	10.3	9.4	-
4373	Clayton Plc	125	0	9.3	9.0	-
7148	W. S. Yates	320	+13	16.2	5.1	26.7

Securities designated (SD) and (USM) are dealt in subject to the rules and regulations of the UK. Other securities listed above are dealt in subject to the rules of the UK.

These securities are dealt in subject to a number of conditions. Further details are available on request.

Independent Companies Exchange Limited  
77 Mansell Street, London E1 8AF  
Telephone 01-488 1212  
Member of ISA

Granville Davies Limited  
77 Mansell Street, London E1 8AF  
Telephone 01-488 1212  
Member of The ISE & TSA

CAL Futures Ltd  
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London  
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## National Westminster Finance B.V.

(Incorporated in The Netherlands with limited liability)

## Guaranteed Floating Rate Capital Notes 2005

In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from April 23, 1990 to October 23, 1990 the Notes will carry an interest rate of 8¼% per annum. The interest payable on the relevant interest payment date, October 23, 1990 against Coupon No. 11 will be U.S. \$447.97.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank

April 23, 1990

## THE THAI-EURO FUND LIMITED

## International Depositary Receipts

issued by

Morgan Guaranty Trust Company of New York

Evidencing 1000 participating shares of USD 0.01 each

IDR-holders are hereby advised that copies of the Company's Annual Report and Accounts for the year ended 31 December 1989 are available from the Depositary.

A specially prepared VHS video is also available to the shareholders on request at a price of GBP 20.

The video in English covers the Thai economy and stockmarket, details of the investment strategy of the Thai-Euro Fund Limited and its performance.

Requests should be sent to the address indicated below, to the attention of the Securities Department, Corporate IDR Section, MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Brussels Office, 35, Avenue des Arts, 1040 BRUSSELS  
As Depositary

## BASE LENDING RATES

ABN Bank	15	Credit & Co	15	Northern Bank Ltd	15
Aden & Company	15	Cyprus Popular Bank	15	Overseas Bank Ltd	15
Allied Irish Bank	15	Dubai Bank P.L.C.	15	Paribas Bank Ltd	15
Alfred Bank	15	Dunlop Bank	15	Paribas Bank Ltd	15
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Bank of Taiwan	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Thailand	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of the East	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Co-operative Bank	15	Edinburgh Bank	15	Paribas Bank Ltd	15

Bank of America	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Australia	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Canada	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of China	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Cyprus	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of India	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Japan	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Korea	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of London	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of Mexico	15	Edinburgh Bank	15	Paribas Bank Ltd	15
Bank of New York	15	Edinburgh Bank	15	Paribas Bank Ltd	1







## WORLD STOCK MARKETS

[illegible]



● For Current Unit Trust Prices on any telephone ring direct-0835 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak. inc VAT

Unit Name	Unit Cargo	Cost Price	Est Price	DP
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[illegible]



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Caution  
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Barclays International Funds  
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Attention  
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## Money Market Bank Accounts

**MUT-3**-Gross rate for those exempt from composite rate of the Net actual rate after deduction of CMT Or EMIW CARC Gross equivalent for basic term Insurance-compounded annual rate in Cy frequency interest treatment

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### UNIT TRUST NOTES

Prices are in pence unless otherwise indicated, and these descriptions will not apply to refer to U.S. dollars. Yield % allow for all bank holidays.

- A**-Insurance linked plans subject to Prices of certain other schemes. It distribution free of UK taxes, a Pensions plan.
- B**-Insurance plan, a Simple premium insurance, a offered prices includes all charges except agent's commission.
- C**-Previous day's price, a Guaranteed price, if Subscribed.
- D**-Yield before Jersey tax, + Yield before tax, as Only available for charitable bodies, + Yield before tax.



## CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

## Caution surrounds yen and sterling

Caution mixed with a little optimism described reaction to a rally by the yen and sterling towards the end of last week.

UK clearing bank has lending rate 15 per cent from October 5

Mr Neil MacKinnon, chief economist at Yamaichi in London, said a group of seven intervention to support the yen was minimal last week, but the market showed reluctance to push the dollar through ¥160. He suggested this reflected the dollar's vulnerability to profit taking because, although the US trade figures were encouraging, good figures were already built into the currency's value.

He added that Japanese investors had also taken profits in US Treasury bonds to offset recent losses on Japanese bonds and equities. These factors have turned the

yen round, although in the longer term Mr MacKinnon believes higher Japanese interest rates will be required to support the currency.

Mr David Deakin at Nikko Bank in London thinks that the weakness of the D-Mark is contributing to the yen's improvement. He said that a more stable performance by Japanese equities is also encouraging money to move back into that market.

Sterling has been helped by the D-Mark's decline, riding up on the yen's cost falls, but Mr Nick Parsons, economist at Union Discount is worried that it is only because the yen has been suffering so badly that the pound has remained relatively pressure free.

However, Mr MacKinnon has some words of comfort for the pound, saying that Japanese investors are pushing funds towards high yielding currencies, although Wednesday's UK trade figures will provide a test.

## £ IN NEW YORK

Apr 20	Close	Previous
5 spot	1.6300-1.6350	1.6440-1.6450
1 month	1.6250-1.6300	1.6350-1.6400
3 months	1.6200-1.6250	1.6300-1.6350
12 months	1.6150-1.6200	1.6250-1.6300

Forward premiums and discounts apply to the US dollar

## CURRENCY MOVEMENTS

Apr 20	Bank of England	Bank of Japan
5 spot	1.6300-1.6350	1.6440-1.6450
1 month	1.6250-1.6300	1.6350-1.6400
3 months	1.6200-1.6250	1.6300-1.6350
12 months	1.6150-1.6200	1.6250-1.6300

Forward premiums and discounts apply to the US dollar

## STERLING INDEX

Apr 20	Close	Previous
8.30 am	87.2	87.0
10.00 am	87.1	86.9
11.00 am	87.2	87.0
12.00 pm	87.2	87.1
1.00 pm	87.2	87.1
2.00 pm	87.2	87.1
3.00 pm	87.2	87.1
4.00 pm	87.1	87.1

## CURRENCY RATES

Apr 20	Rate	Spot	Forward
US dollar	1.6300	1.6300	1.6300
Japanese yen	163.00	163.00	163.00
Deutsche mark	1.6300	1.6300	1.6300
Swiss franc	1.6300	1.6300	1.6300
French franc	1.6300	1.6300	1.6300
Italian lira	1.6300	1.6300	1.6300
Spanish peseta	1.6300	1.6300	1.6300
Portuguese escudo	1.6300	1.6300	1.6300
Belgian franc	1.6300	1.6300	1.6300
Dutch guilder	1.6300	1.6300	1.6300
Austrian schilling	1.6300	1.6300	1.6300
Scandinavian currencies	1.6300	1.6300	1.6300
Other currencies	1.6300	1.6300	1.6300

## OTHER CURRENCIES

Apr 20	Rate	Spot	Forward
Argentine peso	1.6300	1.6300	1.6300
Brazilian cruzeiro	1.6300	1.6300	1.6300
Colombian peso	1.6300	1.6300	1.6300
Costa Rican colón	1.6300	1.6300	1.6300
Czech koruna	1.6300	1.6300	1.6300
Danish krone	1.6300	1.6300	1.6300
East German mark	1.6300	1.6300	1.6300
Guatemalan quetzal	1.6300	1.6300	1.6300
Hong Kong dollar	1.6300	1.6300	1.6300
Indian rupee	1.6300	1.6300	1.6300
Israeli sheqel	1.6300	1.6300	1.6300
Malaysian ringgit	1.6300	1.6300	1.6300
Mexican peso	1.6300	1.6300	1.6300
New Zealand dollar	1.6300	1.6300	1.6300
Norwegian krone	1.6300	1.6300	1.6300
Polish zloty	1.6300	1.6300	1.6300
Romanian leu	1.6300	1.6300	1.6300
Soviet ruble	1.6300	1.6300	1.6300
South African rand	1.6300	1.6300	1.6300
South Korean won	1.6300	1.6300	1.6300
Taiwan dollar	1.6300	1.6300	1.6300
Thai baht	1.6300	1.6300	1.6300
West German mark	1.6300	1.6300	1.6300
Yugoslav dinar	1.6300	1.6300	1.6300

## CHICAGO

Apr 20	Rate	Spot	Forward
US Treasury bonds	1.6300	1.6300	1.6300
US Treasury bills	1.6300	1.6300	1.6300
US Treasury notes	1.6300	1.6300	1.6300
US Treasury securities	1.6300	1.6300	1.6300
US Treasury futures	1.6300	1.6300	1.6300
US Treasury options	1.6300	1.6300	1.6300
US Treasury derivatives	1.6300	1.6300	1.6300
US Treasury instruments	1.6300	1.6300	1.6300
US Treasury products	1.6300	1.6300	1.6300
US Treasury services	1.6300	1.6300	1.6300

## JAPANESE YEN (USD)

Apr 20	Rate	Spot	Forward
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00
Japanese yen	163.00	163.00	163.00

## EUROPEAN MARK (USD)

Apr 20	Rate	Spot	Forward
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300
European mark	1.6300	1.6300	1.6300

## THREE-MONTH EUROPEAN MARK

Apr 20	Rate	Spot	Forward
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300
Three-month mark	1.6300	1.6300	1.6300

## STANDARD &amp; POOR'S 500 INDEX

Apr 20	Rate	Spot	Forward
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300

## STANDARD &amp; POOR'S 500 INDEX

Apr 20	Rate	Spot	Forward
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300
Standard & Poor's 500	1.6300	1.6300	1.6300

## FT-Actuaries WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

REGIONAL MARKETS	US Dollar	% change	Pound Sterling	% change	Local Currency	% change	1980 High	1980 Low	Year ago
Australia (81)	118.09	+11.1	121.99	+11.8	118.09	+11.8	118.09	118.09	118.09
Austria (12)	271.89	+4.8	246.47	+27.4	271.89	+27.4	271.89	271.89	271.89
Belgium (61)	147.77	+4.5	133.95	+12.8	147.77	+12.8	147.77	147.77	147.77
Canada (120)	131.44	+15.8	119.15	+110.6	131.44	+110.6	131.44	131.44	131.44
Denmark (38)	132.84	+2.5	119.15	+110.6	132.84	+110.6	132.84	132.84	132.84
France (125)	138.64	+0.3	121.15	+11.1	138.64	+11.1	138.64	138.64	138.64
Germany (84)	165.91	+6.3	150.40	+47.8	165.91	+47.8	165.91	165.91	165.91
Hong Kong (48)	132.84	+2.5	119.15	+110.6	132.84	+110.6	132.84	132.84	132.84
Ireland (17)	101.85	+3.3	92.14	+94.3	101.85	+94.3	101.85	101.85	101.85
Italy (96)	128.88	+6.3	112.58	+128.4	128.88	+128.4	128.88	128.88	128.88
Japan (454)	171.51	+6.8	155.55	+23.4	171.51	+23.4	171.51	171.51	171.51
Malaysia (35)	411.51	+26.4	373.03	+182.9	411.51	+182.9	411.51	411.51	411.51
Netherlands (43)	138.70	+12.4	121.99	+11.8	138.70	+11.8	138.70	138.70	138.70
New Zealand (17)	227.33	+13.7	206.07	+20.1	227.33	+20.1	227.33	227.33	227.33
Norway (24)	187.49	+6.1	170.41	+162.3	187.49	+162.3	187.49	187.49	187.49
South Africa (80)	164.99	+5.7	139.38	+123.9	164.99	+123.9	164.99	164.99	164.99
Spain (42)	158.75	+7.7	143.88	+162.1	158.75	+162.1	158.75	158.75	158.75
Sweden (35)	187.07	+2.6	168.58	+169.1	187.07	+169.1	187.07	187.07	187.07
Switzerland (65)	90.73	+3.6	82.24	+83.6	90.73	+83.6	90.73	90.73	90.73
United Kingdom (306)	145.51	+8.4	131.72	+17.2	145.51	+17.2	145.51	145.51	145.51
World Ex. Japan (1929)	137.65	+4.1	124.78	+130.7	137.65	+130.7	137.65	137.65	137.65
Europe (988)	140.18	+1.7	127.07	+124.7	140.18	+124.7	140.18	140.18	140.18
Nordic (121)	188.49	+1.1	171.76	+181.9	188.49	+181.9	188.49	188.49	188.49
Pacific Basin (561)	138.15	+2.3	123.42	+134.9	138.15	+134.9	138.15	138.15	138.15
Euro-Pacific (1850)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
North America (657)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
Pacific Ex. Japan (207)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
World Ex. US (1843)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
World Ex. UK (2074)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
World Ex. So. Afr. (2220)	138.14	+2.0	123.42	+134.9	138.14	+134.9	138.14	138.14	138.14
World Ex. Japan (1929)	137.65	+4.1	124.78	+130.7	137.65	+130.7	137.65	137.65	137.65
The World Index (2380)	136.41	+15.1	123.68	+132.58	136.41	+132.58	136.41	136.41	136.41

Base values: Dec 31, 1988 = 100; Finland: Dec 31, 1987 = 115.03 (US \$ Index), 90.791 (Pound Sterling) and 94.84 (Local); Nordic: Dec 30, 1988 = 139.65 (US \$ Index), 114.45 (Pound Sterling).  
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## POUND SPOT - FORWARD AGAINST THE POUND

Apr 21	Day's spread	Close	One month	Three months	One year
US	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Canada	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Japan	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Deutsche mark	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Swiss franc	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
French franc	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Italian lira	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Spanish peseta	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Portuguese escudo	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Belgian franc	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Dutch guilder	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Austrian schilling	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Scandinavian currencies	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300
Other currencies	1.6300-1.6350	1.6300	1.6300	1.6300	1.6300</







**MINES - Contd**

**OVERSEAS UNION  
BANK LIMITED**  
**US\$100,000,000**

**Subordinated Floating  
Rate Notes due 2011**

*(Redeemable at the option of the  
Noteholders in 1986 and 2006)*

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 23rd April, 1990 to 23rd October, 1990 has been fixed at 8%. The interest payable on the relevant interest payment date, 23rd October, 1990, will be US\$11,278.65 per US\$250,000 Note.

**Agent Bank**  
**Chartered West LB Limited**



4pm prices April 20

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

**Continued on Page 41**



**NASDAQ NATIONAL MARKET**

40m prices April 20

[illegible]

**4pm prices**  
**April 20**

[illegible]

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## The Business Column

### Software moves to the fore

IN FUTURE, economic progress will not rely so heavily on tangible, quantitative and material advances in productivity.

Competition is increasingly taking on a softer edge. Software is taking on a more significant role in giving companies and products a competitive edge.

Development in the hardware of products is still a vital component in commercial success, whether it be the introduction of a 64 megabyte D-Ram semi-conductor, high-thrust engines to power wider-bodied airliners or lean burn engines for cars.

Ironically technical advances in industry's hardware have made software more important. The most obvious case is the computer industry where the divide between software and hardware is most established.

Computer manufacturers used to make large, expensive, inflexible machines dedicated to a clear purpose. The software was designed to achieve the end.

Now customers can buy a vast array of relatively cheap computer systems and expect more from them. Software allows them to be more co-ordinated and flexible.

It is more difficult to draw these distinctions in industries such as cars, consumer electronics and telecommunications.

### Intelligent cars

In the automotive industry, however, car software is gaining in importance. It is being used more as an adjunct of electronics in a car rises, making it all work together as metal and wiring are displaced.

On the horizon are much more intelligent cars, with computers making adjustments for the car's state and road conditions. The computer will control and link separate sub-systems. The industry is some way from that goal but computerised engine-control systems are already with us.

More generally the software of cars, their styling, accessories and services are becoming more important in differentiating competing products. In consumer electronics, Sony's recent takeover of Columbia pictures is a striking example of how much is at stake in the software of the industry.

Developments in consumer electronics hardware, with high definition television and more sophisticated compact discs, often capture the imagination. But whoever controls the software which people will play - the music and films - will be able to exert a great deal of influence over which company's tapes, discs and machines are used.

Finally software is becoming increasingly important in the telecommunications industry. Advances in the technical infrastructure of fibre optic cabling and satellites will be the foundation of the next generation of telecommunications services.

### Computer phone

Telecommunications networks are increasingly becoming "intelligent" through the use of software.

The traditional telephone switch has become a computer, with between a half and two-thirds of the cost accounted for by the software which switches, traces, redirects and forwards calls.

BT is introducing computerised management centres, which will control the flow of traffic through the network. The hardware to achieve that is readily available, the difficult task is writing the software to pull it all together.

Software is also gaining weight more generally in design and after sales service where it can be used to add value and differentiate between products.

Power is shifting away from the hardware manufacturers and towards the software authors who make machines run together.

That means that companies and manufacturers will have to acknowledge the importance of the soft component of their business and change the way they manage.

These advances may be much more difficult to evaluate than the tangible gains they make in raising measurable productivity or introducing new technology.

Yet it is clear that the soft intangible aspects of competition are as important as the hardware base.

Charles Leadbeater

## MONDAY INTERVIEW

# Car maker spreads its wings

Edzard Reuter, chairman of Daimler-Benz speaks to David Marsh in Bonn

which will probably persist this year and in 1991 - "should come to an end in 1992."

Reuter rans home his continued interest in European co-operation. He stresses the importance of the agreement before Easter with Aerospaciale, the French state-owned aerospace group, to pool activities in helicopters. But Reuter's fundamental message is uncompromising.

"We said very early on that we believed in the urgency of this transaction with MBB, and the restructuring of the German aerospace industry that went with it. Because we wanted to be a partner with

### PERSONAL FILE

1928 Born Berlin, February 16

1933 Moved with family to Turkey after his prominent

1946 Returned to Berlin, joined SPD (is still a member)

1957 Joined Ufa film company

1962 Joined Bertelsmann

1964 Joined Daimler-Benz

1978 Daimler board member

1987 Daimler-Benz chairman

ability to make deals internationally... Perhaps some people did not believe us. Now we are putting this into effect."

Last month's announcement of a link between UTC's Pratt and Whitney division and Daimler's Motoren- und Turbinen-Union (MTU) subsidiary to develop aero-engines broke MTU's 25 year partnership with Pratt's rival General Electric (GE). At the beginning of April, this sparked a \$1.5bn lawsuit from GE alleging fraud and misappropriation of trade secrets.

Daimler's Mitsubishi and UTC moves, says Reuter, "should be surprising for no-one, certainly not for people in the US. We have always said

that we want, as European partners, to acquire a world dimension... We are not doing this against America - we are simply want, in partnership with US companies, to be taken seriously."

One important reason for the aero-engine alliance with Pratt and Whitney, with which Daimler has been co-operating on individual projects since the 1970s, was because of GE's existing strategic ties with Snecma, the French aero-engine group, Reuter says.

"MTU, which has always been an important company in international co-operation, but always absolutely a junior partner, now suddenly can acquire the international status of an equal partner."

Reuter says he cannot "interfere" in the GE lawsuit. But he adds: "I know my friend Jack Welch (the GE chairman) very well, and he knows me very well. The impulsiveness of his reaction did not very much surprise me... I am convinced that the lawsuit is without foundation."

The timetable for agreeing the size of the planned cross-shareholdings between Daimler's Deutsche Aerospace subsidiary (Dasa) and UTC will depend on the lawsuit, which should be settled within 12 months, Reuter says.

"The shareholding of Dasa or MTU in Pratt will be arithmetically somewhat smaller than the other way around, Pratt may take slightly more than 5 per cent of Dasa... It will be around this order of magnitude. The important thing is that, in practical terms, we start work straight away (on aero-engines) in the committee for our joint activities."

With Mitsubishi, Reuter says possible co-operation runs from vehicles to space rockets. It will apply to civilian areas only.

"We will see the first concrete projects next year. We will certainly co-operate with Mitsubishi in new vehicle manufacturing projects - auto-



'We have made massive steps to give the company a new structure'

mated engineering, and so on."

This would include Daimler's planned new plant at Rastatt in south-west Germany and also projects abroad - "for instance in the Soviet Union."

The two companies could work on a future joint cross-country car, where Daimler will eventually be seeking a successor model. "This could be a joint project - where some components come from Mitsubishi, the others from us. In commercial vehicles, there are also regional co-operation possibilities, in the Far East, and one day in North America and South America - or in the eastern part of Europe."

There will be a role too for Daimler's electrical subsidiary AEG. "We have established that in the area of product electronics - automobile electronics, for instance, as well as household appliances - we could work together."

The same applies to activities in railway technology and electronic control systems.

In aerospace, talks between Dasa and Mitsubishi Heavy Industries are concentrated on space - co-operation in satellites and possibly in rocket technology."

Dasa is discussing a possible

70 to 75 seater regional transport aircraft for China, which could be developed in partnership with Mitsubishi. An engine for this aircraft "could be developed by MTU, Mitsubishi and perhaps Pratt and Whitney."

Reuter says that Daimler is also exploring "close co-operation" with Mitsubishi's trading, construction and finance activities. Reuter says he is pursuing possible collaboration with British Aerospace and Fokker on regional transport aircraft. He is "still talking" to BAE about the question of cross-shareholdings.

"But we have to know first - as in other cases - whether the areas of work fit together, before we decide on a large cross-participation."

With France, Reuter - who visited President Francois Mitterrand for talks in mid-March - admits that relations have become "more delicate" as the result of German reunification.

But he adds, "My impression from many talks in Paris is that, with the decision to press ahead with European monetary union, these irritations are now part of the past."

Then he adds a warning. "We can only conceive of a

really broad co-operation (in aerospace) if the role of the French state is clearly reduced." In the perennial debate over restructuring the Airbus Industrie consortium, in which MBB is the German partner, Reuter takes the French somewhat to task.

"My scepticism remains very large. The question for Airbus is not the future of Airbus on the market, but the question of whether Airbus has a chance of becoming an economic success. I am firmly convinced that this is possible, on the condition that the Airbus structure is placed on a private sector, market-orientated basis."

"There are now three partners - the Spanish, the British and the Germans - who firmly believe that a market-orientated structure is necessary, and Mr Martre (the Aerospaciale chairman), and the management of Aerospaciale are also moving in this direction."

Reuter says that, "in the appropriate spirit of friendliness," Daimler will be pushing the French to move further.

Reuter believes that the strategic importance of Deutsche Bank's 28 per cent stake in his company is sometimes exaggerated.

But Daimler lost its most powerful champion - and Reuter a close personal ally - with the murder in November of Alfred Herrhausen, Deutsche's chairman and Daimler's supervisory board chairman.

While denying the bank "interferes in the strategy of Daimler," Reuter says that the relationship "gives Daimler-Benz the assurance that there will be no quick changes in the shareholding structure."

"We have the room to think really strategically, long-term."

Born in Berlin, and with a father who was the mayor of West Berlin during the post-war airlift, Reuter understands the emotions behind the move to German unity - and is even a little wary of them.

Daimler will be collaborating in trucks with the East German IFA vehicles Kombinat, while AEG will play an important role in East Germany (DDR) in areas like switches, cables and railway technology.

But he says that, even in the longer term, East Germany is unlikely to account for more than 5 per cent of Daimler's sales.

Daimler's ambitions may be worldwide but "Europe is our future home market."

## Self-regulation under threat

When the Court of Appeal decided three years ago that the Panel on Takeovers and Mergers should come under judicial review, it gave tacit approval to a system designed by the City to protect investors and shareholders in companies which are subject to offers of takeover. Yet this impressive system of self-regulation is coming under threat from a draft European Community Directive.

A proposal last December for a 13th Council Directive on company law concerning takeovers and other general bids has recently been re-drafted in the light of strenuous representations from UK interests.

This latest version is thought to retain the objectionable features of the earlier drafts. In particular, each member state would be required to designate a supervisory authority to ensure that parties to a takeover fulfil their obligations under detailed, legally-binding rules.

The first attempt at self-regulation during the takeover boom of the 1960s and the period of ensuing abuses was unpromising. The voluntary Panel set up in April 1968 to administer a City code on takeovers and mergers seemed powerless to act when the rules were broken. Faced with adverse comment in the press arising out of a number of cases of impropriety, the City established a greatly strengthened panel with a permanent secretariat and full powers to discipline offending parties through the discretionary powers of the Stock Exchange and other City institutions.

There is in place today an effective system of self-regulation. The Master of the Rolls has described the Panel as "a truly remarkable body... it oversees and regulates a very important part of the UK financial market. Yet it performs the function without visible means of legal support."

The Panel is a self-regulating, unincorporated association with no direct statutory, prerogative or common law



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power. If, however, the Panel determines that there has been a breach of the Code, it may refer the matter to the Department of Trade and Industry or the Stock Exchange, which may impose statutory or contractual penalties.

Since the Financial Services Act 1986 came into force the Panel has had even greater power. Self-regulatory organisations established under the Act require their members to co-operate generally with the Panel and to refuse to act for clients who will not accept the City Code. Lord Justice Lloyd observed that "the Panel wields enormous power. It has a giant's strength." Why disturb a system of self-regulation that works well in the interests

of shareholders? The advantage of a system of self-regulation is reflected in the Code's approach. It separates general principles, which provide broadly for full disclosure and equity between one shareholder and another, from formal rules on procedure. It declares that the spirit as well as the letter of the general principles and the rules must be observed. This is achieved in practice by the scrutiny of all relevant documents by the Panel's secretariat and by the

stipulation that the Panel shall be consulted in advance in any case of doubt. Where necessary the Panel can be asked for a ruling. The Panel may intervene wherever it appears that the parties in a takeover have not been acting in accord with the spirit or letter of the Code.

The Panel's experience over two decades has been that takeovers need to be conducted within a restricted timetable if they are not to interfere with commercial activity or lead to protracted uncertainty. Thus the supervising body correspondingly must react with alacrity and flexibility to fast-moving situations and must work with, and rely on, practitioners to help police the Code. At all costs the Panel must be able to give conclusive rulings and directives which cannot be challenged in the courts. This valuable system could not be preserved were the Panel's rules to require the binding force of law.

While the Panel supports the commendable objectives of the directive, it is worried that what will be lost are the prime virtues of self-regulation - speedy adjudications in contested takeover issues, flexibility in policing the Takeover Code and certainty in swift resolution of problems in a takeover, without the parties resorting to costly and delaying litigation.

The Panel is making a strong plea that if the directive is promulgated, member States should be free to implement its provisions by extra-legal means. It wants the directive to contain provisions designed to prevent tactical challenges in the courts to the decisions of supervisory authorities. It also believes there should be a general power in the supervisory authorities to waive any rule in the directive, and that member states should be free to add to the safeguards imposed by the directive. The Panel may yet reach its goal to keep self-regulation in a country where, by contrast with its European partners, the takeover scene is much more active.

This announcement appears as a matter of record only.

## SICLI PARTICIPATIONS

has acquired 99 % of  
Compagnie Centrale SICLI & General Incendie

The financing of the senior debt of  
**FF 1,368,000,000**  
has been organized by



**Crédit Lyonnais**

Agent



**Banque Paribas**

Co-Agent

Funds were provided by

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Bank of Tokyo  
Compagnie Parisienne de Réescompte  
Crédit Industriel et Commercial de Paris  
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Banque Fédérative du Crédit Mutuel  
Banque Générale du Phénix  
Banque Pétrofiagaz

Bayerische Vereinsbank (France) S.A.  
National Westminster Bank S.A.  
The Long Term Credit Bank of Japan (Europe) S.A.

Banque de Gestion Privée - SIB  
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March 1990

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